Massey-Ferguson Limited Annual Report

1979

Massey-Ferguson Limited

200 University Avenue
Toronto, Canada, M5H 3E4

THE BUSINESS OF MASSEY-FERGUSON

Massey-Ferguson is a Canadian-based multinational corporation that manufactures farm and industrial machinery and diesel engines. These products are made by the Company, its Associates and licensees in 30 countries and sold in 190 countries.

PREFERRED SHAREHOLDERS VOTING RIGHTS

All holders of preferred shares, both Series A and B, are entitled to attend and vote at the Company's Annual Meeting as a result of the preferred share dividends being in arrears for eight quarterly payments.

CONTENTS

DIVIDENDS

On December 20, 1977, a dividend of 25 cents (Canadian funds) was paid to common shareholders of record as of November 25, 1977, for the last quarter of fiscal 1977. A dividend of 62½ cents (Canadian funds) was paid to Series B preferred shareholders on December 31, 1977 and to Series A preferred shareholders on January 31, 1978.

The Company announced on Feburary 14, 1978, that dividends would not be paid on the common shares for the fiscal quarter ended January 31, 1978, and would not be paid to Series B preferred shareholders on March 31, 1978, or to Series A preferred shareholders on April 30, 1978, because of a dividend restriction in a senior note issue (this restriction is set out in detail in Note 7 on page 30). No further dividend action on the preferred or common shares can be taken until accumulated net income reaches the level required under the dividend restriction formula.

ANNUAL MEETING

The Annual Meeting will be held in the Canadian Room of the Royal York Hotel in Toronto, Canada, at 12 o'clock noon, on Thursday, February 28, 1980.

10-K REPORT

A copy of the Company's 10-K report for 1979 is available to shareholders upon request to the Company Secretary.

LE RAPPORT EN FRANÇAIS

Le rapport du conseil aux actionnaires et certains extraits du rapport annuel en français peuvent être obtenus sur demande en s'adressant au Secrétaire de la compagnie.

FINANCIAL HIGHLIGHTS

OPERATING SUMMARY *(Millions of U.S. Dollars)*	**1979**	1978
Net sales	**$2,973.0**	$ 2,631.0
Operating profit (loss)	**30.2**	(132.5)
Provision for reorganization expense	**(95.0)**	(72.6)
Extraordinary item	**95.4**	
Net exchange gain (loss)	**6.3**	(57.3)
Net income (loss)	**36.9**	(262.4)
FINANCIAL STATUS *(Millions of U.S. Dollars)*		
Net current assets*	**$ 426.2**	$431.1
Long-term debt*	**624.8**	651.8
Capital and retained earnings	**578.2**	541.3
PER COMMON SHARE *(U.S. Dollars)*		
Net income (loss) (after cumulative dividends on preferred shares)	**$ 1.58**	$ (14.84)
Common dividends paid *(Canadian Dollars)*		0.25
Equity	**25.66**	24.08
STATISTICAL DATA		
Number of employees	**56,233**	57,983
Number of shareholders		
Common	**29,926**	31,353
Preferred	**10,613**	11,370
Shares outstanding (thousands)		
Common	**18,250**	18,250
Preferred		
Series A	**1,526**	1,526
Series B	**2,299**	2,299
Percentage of ownership of common shares by registered residence		
Canada	**61.9**	57.9
United States	**36.9**	40.7

*Excludes Finance Subsidiaries.

DIRECTORS

DIRECTORS

Conrad M. Black
Chairman of the Board and Chief Executive Officer
Albert A. Thornbrough
Deputy Chairman of the Board
The Marquess of Abergavenny
Ralph M. Barford
G. Montegu Black
Dixon S. Chant
Fredrik S. Eaton
H. N. R. Jackman
John D. Leitch
A. Bruce Matthews
F. David Radler
Victor A. Rice
A. M. Runciman
The Hon. John N. Turner
J. Page R. Wadsworth
Trumbull Warren
Colin W. Webster
The Duke of Wellington

COMMITTEES OF THE BOARD

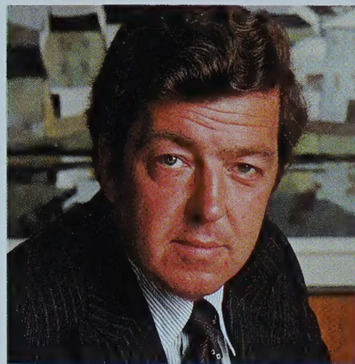
Executive committee
Conrad M. Black
Chairman
F. David Radler
Vice Chairman
G. Montegu Black
Dixon S. Chant
Fredrik S. Eaton
H. N. R. Jackman
Victor A. Rice

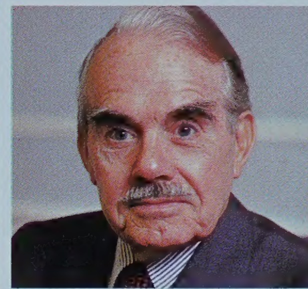
Audit committee
Trumbull Warren
Chairman
H. N. R. Jackman
Dixon S. Chant

Compensation committee
J. Page R. Wadsworth
Chairman
Dixon S. Chant
Fredrik S. Eaton
F. David Radler
Colin W. Webster

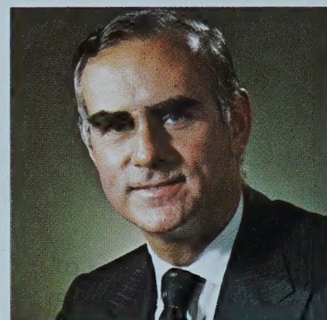
Nominating committee
Conrad M. Black
Chairman
J. Page R. Wadsworth
Trumbull Warren

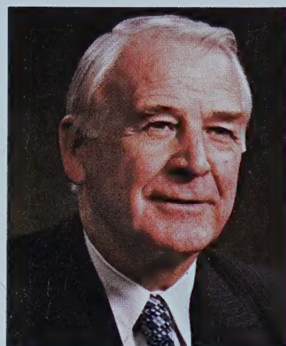
Conrad M. Black

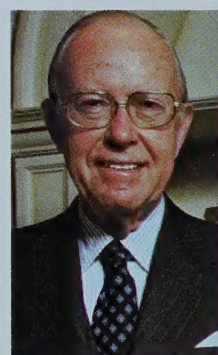

Victor A. Rice


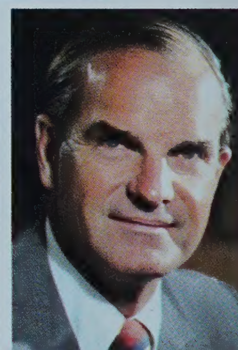
Dixon S. Chant


Fredrik S. Eaton



H. N. R. Jackman


A. M. Runciman

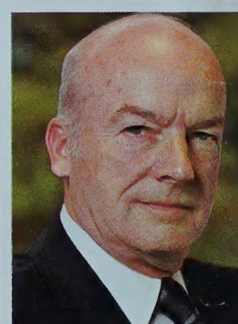
Albert A. Thornbrough



Ralph M. Barford

Trumbull Warren



G. Montegu Black

John D. Leitch


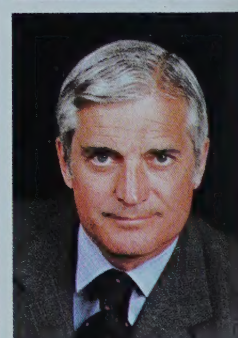
J. Page R. Wadsworth

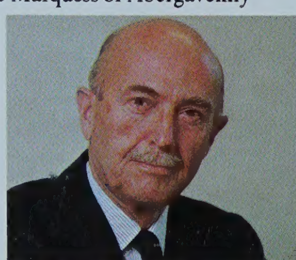

The Duke of Wellington

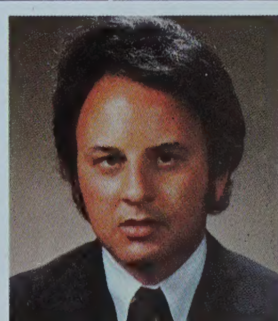


The Marquess of Abergavenny


Colin W. Webster


The Hon. John N. Turner


A. Bruce Matthews


F. David Radler

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

For the year ended October 31, 1979

1979–A YEAR OF TRANSITION AND REBUILDING

1979 proved to be a year in which the Company established the foundation for profitable growth. Much was achieved and the most visible result was the fulfillment of our objective to reach a breakeven position. After the major loss of $262.4 million in 1978 we ended 1979 with a net income of $36.9 million.

This, however, is not the significant figure by which to judge the Company's performance. The net income figure includes adjustments for exchange, unusual one-time provisions and an extraordinary tax credit. Some of the items, such as exchange, are not entirely within our control and all others are non-recurring.

A more accurate measure is the Company's operating results; that is, before exchange adjustments and extraordinary or unusual items. In 1978 we had an operating loss of $132.5 million; while in 1979 we had an operating profit of $30.2 million. Management action to reduce costs was the key to the year's improved results. Purchasing and manufacturing programs to control inventories and cost of goods sold kept inventories at the 1978 level and brought manufacturing costs as a percentage of sales below the 1978 level. Similarly, marketing, general and administrative expenses and interest costs, as a percentage of sales, were reduced.

During the year, many actions were taken to concentrate the Company's resources in selected segments of the farm and industrial machinery and diesel engines businesses which we now refer to as our core structure. These actions continued the program, begun in 1978, to dispose of surplus facilities and unprofitable or peripheral activities. They included the sale of part or all of our interests in several companies around the world and taken together have left the Company with a suitable production capacity for its core structure. Details are included in the Management Discussion section on page 7. Despite the impact of the major reduction of 11,000 employees in the past two years, the Company improved the continuity and level of production in most of its factories.

New opportunities were identified during 1979, as part of the Company's investment in the future, which included, among other actions, further rationalization of manufacturing facilities and manpower reductions. The expenditures related to these opportunities will be incurred in 1980 but the provision for them was made in 1979 and is offset by the benefit of the extraordinary tax credit. The resultant savings will begin in mid 1980 and should pay for the one-time cost within a nine-month period. Company studies have indicated that the savings should be approximately $100 million on an annualized basis.

NEW EQUITY ISSUE

We announced in August, and described further in our 1979 Third Quarter Report, our intention to issue between Cdn. $300 and $500 million of preferred shares and warrants for common shares, subject to the necessary approvals by regulatory bodies and our shareholders. The consent of our long-term debt holders would also be required for payment of preferred dividends including arrears on the outstanding preferred shares.

Preparations for the proposed new issue are well advanced. Our financial advisers have reported that after their extensive studies and a review of the steps taken by the Company to improve operations and its financial position, the prospective underwriting group is impressed by the Company's progress and believes that it should be possible to conclude a successful public equity financing in the current fiscal year.

BOARD AND MANAGEMENT CHANGES

During the year, the Board worked closely with management in support of its programs and strategies. The Executive Committee of the Board of Directors was re-established. The three other standing committees of the Board–Audit, Compensation, and Nominating–were active throughout the year, with the Board and all committees having met a total of 38 times.

The Directors record with regret the deaths of Nelson M. Davis on March 13; Gilbert W. Humphrey on June 17; and Harry J. Carmichael on October 28. Mr. Davis was Chairman of Argus Corporation Limited and had been appointed a Director on March 8. Mr. Humphrey, a Director of the Company for 15 years, was Chairman of the Hanna Mining Company, Cleveland, Ohio. Mr. Carmichael had served 26 years as a Director and as an Honorary Director since 1976.

At the meeting of the Board on December 19, Ralph M. Barford was appointed a Director. The Directors are pleased to welcome back Mr. Barford who served as a member of the Board from April 1978 until the Annual Meeting in 1979. Mr. Barford is President of Valleydene Corporation Limited and Chairman of GSW Limited. At the meeting of the Board on January 4, 1980, the Hon. John N. Turner was appointed a Director. Mr. Turner is a partner in the legal firm of McMillan, Binch in Toronto. Previously he was a Member of Parliament in Ottawa from 1962 and served as Minister of Finance from 1972 until his resignation in 1976.

Sir Montague Prichard, formerly Managing Director of the Perkins Engines Group and a Director of the Company who retired in 1975, was elected an Honorary Director. In this position, he joined Henry Borden, James S. Duncan, Maxwell C. G. Meighen and E. P. Taylor.

A number of senior management changes were announced during 1979, the principal one being the appointment on May 1 of Conrad M. Black, Chairman of the Board, to the additional position of Chief Executive Officer. Mr. Black succeeded Albert A. Thornbrough who had been Chief Executive Officer since 1965 and who continues to serve as Deputy Chairman of the Board.

Changes in the organization of the Company during the year resulted in the appointments of D. Brian Long as Vice President Strategic & Product Planning; John H. Ruth as Vice President Marketing; and David Sadler as Vice President Manufacturing to provide strong leadership to these three vital areas of the Company's operations. Other major appointments placed James J. Campbell in charge of European and World Export Operations; Michael R. Hoffman in charge of Components and Southern Hemisphere Operations; and Darwin G. Kettering in charge of North American Operations. These experienced executives contributed greatly to the favourable 1979 results. The Company's top management structure is shown on the chart on page 10.

1980 OUTLOOK

Given 1980 production of wheat and feed grains at or near the long-term trend, the outlook for farm income, and thus farm machinery sales, is generally favourable. However, as with most multinational companies, Massey-Ferguson will continue to face many of the adverse economic factors that were experienced in 1979. Economic growth is expected to be slower throughout most of the world and inflation and high interest rates will present significant problems. Also, we will continue to face the risk of varying exchange rates particularly in our key currencies: sterling and the U.S. dollar.

In North America in 1980, farm machinery industry sales as a whole are unlikely to match those of 1979, but demand should remain at a high level. In Europe, farm machinery sales are likely to remain at or near those of 1979, subject to the level of increases in the support price to be granted by the European Economic Community in the spring of 1980.

Sales in Latin America, particularly Brazil, are expected to be significantly above the depressed level of 1979. The Brazilian Government is beginning to implement a new agricultural development program, and farm machinery sales are expected to increase by 20 per cent or more in 1980. The Australian market should also show some improvement, for the second successive year.

Our new line of high-horsepower tractors, introduced in limited quantity in North America in 1978 and in Europe and some export territories in 1979, have been well received. Our share of this growing market should increase during 1980 and beyond. New cultivating and tillage products and combine harvester features will be marketed in 1980. These, along with programs begun in 1979 to emphasize product quality and provide better service to our distributors and users, should enhance our sales.

The divestment of our Construction Machinery business by the sale of the Hanomag operations to IBH Holding A.G. of Mainz, West Germany, means that we will be able to devote additional effort to our line of industrial machinery which should offer new opportunities in 1980.

The Company's strength in the increasingly competitive diesel engine business will continue to be a positive factor in the future. The Engines Group is continuing to develop its engine range based on the high level of technology needed to maintain its leadership in the diesel industry.

A number of the actions taken by management in 1979 to reduce manufacturing and other costs began to take effect in the latter part of the year. The favourable impact of operating cost and manpower reductions as well as our divestment and facilities rationalization program will be reflected in the Company's results during 1980.

Despite our improved performance in 1979, the resumption of dividends depends on the Company having an accumulated net income of $217 million after October 31, 1979, as now required under certain of our long-term debt restrictions. With the consent of our debt holders, new equity could permit the Company to resume dividends on the preferred shares.

In summary, although 1980 will be a year in which the world economic outlook will remain clouded, the Company expects to continue its progress toward acceptable profit levels.

The Board of Directors and management extend their appreciation to our shareholders, employees, distributors, dealers, suppliers and lenders for their continued valuable support during this difficult year of transition and rebuilding.

On behalf of the Board,

Conrad M. Black
Chairman of the Board
and Chief Executive Officer

Victor A. Rice
President
and Chief Operating Officer

Toronto, January 4, 1980

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

It became evident in early 1978 that the Company was facing a difficult period, and management launched a major reorganization program to meet this challenge. Basic changes in objectives, activities and organization were made, focusing management attention on key areas of the business to ensure that the Company was structured to achieve consistently profitable operations and a financially acceptable balance sheet.

The main thrust of the new organization was the concept of a "core structure" to replace the former decentralized, regional organization. This core structure is now in place. It includes the production and sale of farm and industrial machinery and diesel engines, related components and parts from our facilities in Canada, the United States, the United Kingdom and France.

In support of the core structure, a program was undertaken to rationalize manufacturing operations and to dispose of excess facilities and peripheral businesses. Progress on this program is detailed under Provision for Reorganization Expense.

The impact of the various actions undertaken in the reorganization program and of a number of external factors requires a detailed analysis of operations. In the following sections various aspects of the consolidated financial statements are explained.

To help clarify 1979's results, we have established the concept of operating income as a measure of management's performance. We define operating income as total revenue less all recurring expenses which are within the control of management.

In determining operating income, we exclude extraordinary items, and net exchange adjustments and reorganization expense pertaining to continuing operations.

On this basis, operating income for 1979 is $30.2 million in contrast to 1978's operating loss of $132.5 million. Our net income is $36.9 million compared with 1978's net loss of $262.4 million.

	1979	1978
Operating income (loss)	**$ 30.2**	$(132.5)
Provision for reorganization expense	**(95.0)**	(72.6)
Extraordinary item	**95.4**	
Net exchange gain (loss)	**6.3**	(57.3)
Net income (loss)	**$ 36.9**	$(262.4)

These figures are all calculated on a wholesale sales basis rather than the settlement basis we have been using since 1973. (The section on Net Sales explains the change.) Stated on our former settlement basis, 1979 shows an operating profit of $9.3 million and 1978's loss is $126.2 million.

At the beginning of 1979, management made the commitment that the Company would at least break even on a settlement basis during the year. This goal was achieved and exceeded.

NET SALES
(1979 $2,973.0 million; 1978 $2,631.0 million)

In 1973, the Company adopted settlement accounting to report its North American results with figures based on the time of settlement by the dealer. This was in contrast to the industry practice of reporting sales on a wholesale basis, that is, at the time of shipment of equipment to the dealer. We presumed that our competitors would also adopt the settlement accounting method. This did not happen and in 1979 the Company returned to wholesale accounting which allows easier comparison with the results achieved by our major competitors, consistent internal comparisons and simplifies external reporting. For a year-to-year comparison, we have restated the 1978 income statements on a wholesale basis.

On this basis, 1979 sales totalled $3.0 billion, a 13 per cent increase over 1978 sales of $2.6 billion. Sales from Construction Machinery Operations of $284.1 million in 1979 and $253.2 million in 1978 are now excluded and form part of the Discontinued Operations line.

DISCONTINUED OPERATIONS
(1979 $23.0 million loss; 1978 $94.9 million loss)

Heavy losses in our Construction Machinery business in 1978 led management to investigate the disposal of this operation. During the search for a suitable buyer, management's efforts were concentrated on reducing costs and rationalizing operations into a more compact package. We continued to do this through 1979 and thus continued to consolidate the Construction Machinery results in the Quarterly Reports.

In November 1979, an agreement was signed to sell the Construction Machinery Operations effective February 1, 1980. Therefore, following established accounting practices, the results of this segment of our business are now segregated in the income statements and shown as Discontinued Operations. We have also revised the 1978 figures to allow a more meaningful assessment of the Company's ongoing business.

Sales of Construction Machinery increased 12.2 per cent to $284.1 million in 1979. Excluding exchange factors, the cost of goods sold improved from 92.5 per cent of sales in 1978 to 85.0 per cent. The year's loss before taxes and unusual items was cut to $10.0 million from $57.1 million in 1978.

Construction Machinery results included a 1978 reorganization provision of $43.4 million. Of this, $1.9 million was recovered in 1979. In addition, $15.0 million was provided in 1979 to cover the loss on disposal of discontinued operations.

In summary, Construction Machinery Operations' total loss in 1979 was $23.0 million, less than a quarter of the $94.9 million loss in 1978.

MANAGEMENT

HEAD OFFICE MANAGEMENT

*Victor A. Rice
President and
Chief Operating Officer

*Douglas Barker
Vice President and Treasurer

Michael G. Bird
Director Legal Services
and Managing Director
Massey-Ferguson Holdings Limited

*James J. Campbell
Vice President
European & World Export Operations

*Michael H. Cochrane
Vice President

Paul J. Dixon
Director Management Systems

*Don L. Douglass
Vice President
World Export Operations

*Derek C. Hayes
Secretary

*Michael R. Hoffman
Vice President
Components & Southern
Hemisphere Operations

*Darwin G. Kettering
Vice President
North American Operations

*Vincent D. Laurenzo
Vice President and Comptroller

*D. Brian Long
Vice President Strategic &
Product Planning

Philip E. Moate
Director
Organization & Employee Relations

*Ralph Ramsay
Vice President Engineering

*John H. Ruth
Vice President Marketing

*David G. Sadler
Vice President Manufacturing

*Officers of the Company

Other officers of the Company:
R. D. Garland, *Assistant Secretary;*
V. F. Ciardello, M. Erlindson,
W. H. Mason, G. F. Ryan,
Assistant Treasurers

OPERATIONS MANAGEMENT

North American Operations

W. A. Fredericks
General Manager
Tractor Division

M. E. Davis
General Manager
Harvesting Division

J. F. Wimpress
General Manager
Parts Division

M. A. Thorndycraft
General Manager
Badger Northland

G. A. Christians
Senior Director
Sales Division

European and World Export Operations

D. L. Douglass
Vice President
World Export Operations

J. L. Egan
General Manager
European Parts Operations

France
V. de Mesquita
General Manager

E. De Benedetti
General Manager
Harvesting Division

J. Santandrea
General Manager Tractor Division

A. Perrey
Director Farm Machinery Marketing

West Germany
W. Herbord
General Manager Farm Machinery

Italy
S. Mangano
General Manager

United Kingdom
H. J. Hebden
General Manager

Components and Southern Hemisphere Operations

Engines

A. J. Parsons
Executive Director
United Kingdom Operations

J. M. Felker
Executive Director
Sales & Marketing

Brazil
J. F. Silveira
General Manager

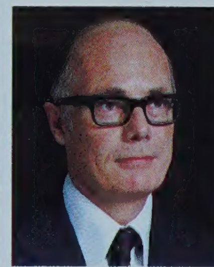
Argentina
R. J. Solari
General Manager

Australia
A. Verhagen
General Manager

Brazil
J. A. Engelbrecht
General Manager

South Africa
L. B. Knoll
General Manager


Victor A. Rice

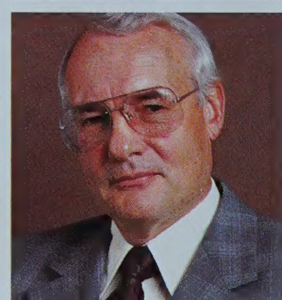

Philip E. Moate


Michael G. Bird

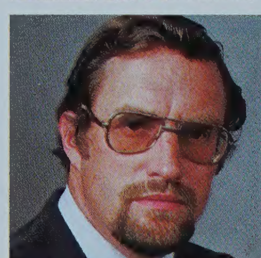

Douglas Barker

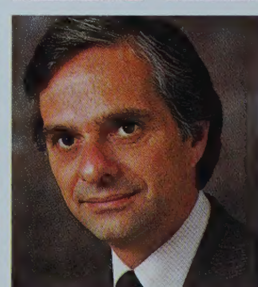

James J. Campbell


Michael R. Hoffman


Darwin G. Kettering


Don L. Douglass


Derek C. Hayes


Michael H. Cochrane

PROVISION FOR REORGANIZATION EXPENSE

(1979 $95.0 million; 1978 $72.6 million)

In 1978, we provided $116.0 million, including $43.4 million for discontinued operations, as a cost of the reorganization.

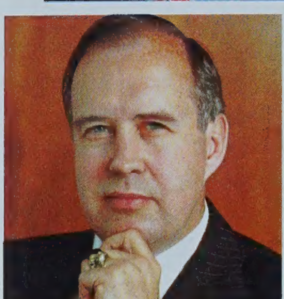
During 1979, as we assessed the results of our initial reorganization moves and as part of the Company's investment in the future, new opportunities for structural cost improvements were identified. The year's statements provide a further $95.0 million. The savings as a result of the actions arising out of these new opportunities will begin in mid-1980, and Company studies have indicated that they should be $100 million on an annualized basis.

When reorganizing on such a scale, it is difficult to predict all contingencies. These figures, as we point out in our notes to the financial statements, can only be estimates until the final amount is known. Expenditures to date on the programs identified in the 1978 Annual Report have been within our estimates. (A description of the Provisions for Reorganization Expense is in Note 11 on page 33.) In countries where such a provision has been made, the Company's subsidiaries are in a tax loss position and, therefore, the related tax benefits have not been recognized.

The divestment and rationalization of facilities are part of our longer-term strategy to concentrate resources in our core structure of farm and industrial machinery and diesel engines. The results of these actions to date are summarized as follows:

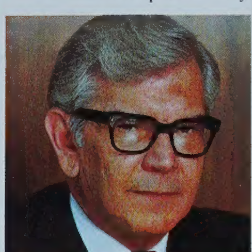
Vincent D. Laurenzo

D. Brian Long



John H. Ruth

Ralph Ramsay



David G. Sadler

Paul J. Dixon

Hanomag Construction Machinery Operations–We have agreed to sell our Hanomag operations to IBH Holding A.G. of Mainz, West Germany, effective February 1, 1980. Massey-Ferguson will continue to be a supplier to the new company of Perkins diesel engines and certain components from our factories in Europe. The agreement with IBH provides for the continuity of supply of Hanomag products, parts and service substantially through the existing distribution network to our customers.

Massey-Ferguson de Mexico S.A.–Sale of the Company's interests in Massey-Ferguson de Mexico, S.A. was completed in September to Grupo Industrial Alfa, S.A., of Monterrey, Mexico, a major company with interests in steel, chemicals and electronics. Alfa will continue the production of Massey-Ferguson tractors and farm implements under licence for distribution through the existing dealer network. The Company's minority interest in Motores Perkins S.A., our Mexican Associate, is unaffected by this change.

Motor Iberica S.A., Spain–Massey-Ferguson has accepted an offer by Nissan Motor Company of Japan whereby Nissan will buy the Company's interest in Motor Iberica, subject to completion of satisfactory commercial agreements. Motor Iberica will continue to manufacture and sell Massey-Ferguson farm and industrial equipment and Perkins engines through the Spanish distribution network and the existing technical assistance agreement with Massey-Ferguson will continue for these products.

Massey-Ferguson (South Africa) Limited–An agreement was reached to reduce our former majority interest in the South African farm machinery company to 24.9 per cent through the sale of part of Massey-Ferguson shareholdings to Federale Volksbeleggings Limited which, prior to this, owned 30.7 per cent of the shares. The transaction is effective January 15, 1980 subject to shareholder approval. Arrangements will be made for the continued provision by Massey-Ferguson of technical aid, know-how, management services and distribution rights.

Kilmarnock, Scotland–The decision to transfer combine harvester production from this facility to our plant in Marquette, France, by February 1980 was announced in November following months of study and discussion with the trade unions, various government bodies and other concerned parties. Massey-Ferguson plans to have a minority participation in a new U.K. company to assist in finding new owners for the Kilmarnock plant and employment for as many of its 1,500 work force as possible.

Canton, Ohio–Production of diesel engines at this plant was discontinued in October 1979 and an agreement was reached with the International Harvester Company granting it an option to purchase machinery and assume the lease for the facility. This option expires February 28, 1980.

Diesel engines formerly produced in Canton for Massey-Ferguson and for third party customers are now sourced from Perkins Engines factories in Peterborough, England.

Akron, Ohio–The Akron industrial machinery plant was closed in April and production transferred to existing Company facilities in Des Moines, Iowa, and Detroit, Michigan. Agreement was reached for the sale of the plant to Go Jo Industries of Ohio, effective January 15, 1980.

Sorocaba, Brazil–Our crawler tractor plant in Sorocaba was sold to Zahndrad Fabrik Friedrichshafen do Brasil S.A. in October. This company will use the facility to produce automotive components.

San Lorenzo, Argentina–This plant, built to produce agricultural implements, was sold to a subsidiary of Lucas (U.K.) in July.

Cinpal, Brazil–The Company's minority interest of 28 per cent in the CINPAL forgings operation was sold to Mercedes do Brasil S.A. in February 1979. Massey-Ferguson continues to be supplied with forgings from this plant.

In addition to the above, the Company sold Massey-Ferguson (Eire) Limited to an Irish industrial group which will continue as its distributor in Ireland. Minor divestments included the sale of two construction machinery retail stores in Germany, two retail outlets in the province of Quebec and a warehouse in Winnipeg, Manitoba.

The over-all impact of the 1979 divestment program will be a reduction in assets of $279.0 million. As stated earlier, this program will continue into 1980, although the major divestments that were referred to in our 1978 Annual Report have now been completed and further actions will largely consist of improved use of facilities within the core structure.

EXTRAORDINARY TAX CREDIT
(1979 $95.4 million income; 1978 nil)

Since 1972 the U.K. has allowed tax relief for gains realized as the result of inflation on inventories which must be replaced at higher costs. To the extent that inventories each year increase by more than a certain percentage of the profits, U.K. companies are allowed to defer the taxes on the increases. These deferrals continued through 1978 and grew to considerable amounts. The U.K. Chancellor of the Exchequer, in his 1979 Budget, proclaimed that after a six-year period, these amounts would never become payable. However, if within the six-year period a company's inventory values should fall below certain defined levels, part or all of the tax relief is subject to recapture.

Subsequent accounting pronouncements stated that such provisions should be removed in their entirety if management could show that these sums were unlikely to ever be payable. Massey-Ferguson has concluded that it is extremely unlikely that it would ever reduce inventories to the point where any portion of this deferred tax would be payable because of inflation in the U.K. Under these circumstances, it is permitted to eliminate this deferred tax accumulated in 1972 through 1978. Accordingly, the 1979 statements show an extraordinary income item of $95.4 million. This tax credit exceeds the provision for reorganization expense charged to continuing operations by $353,000.

NET EXCHANGE
(1979 $6.3 million gain; 1978 $57.3 million loss)

We believe that statement number eight of the Financial Accounting Standards Board (FASB 8) in the U.S. does not properly cope with the need to report the impact of floating exchange rates on the operations of a multinational company. The Financial Accounting Standards Board is now reviewing its position on this subject but will not likely issue a new statement before Spring. Similarly, the Canadian Institute of Chartered Accountants is restudying its 1979 pronouncement on foreign exchange accounting.

FASB 8 requires that inventory when sold be translated in cost of goods sold at historical exchange rates. This requirement results in a distortion of the income statements since the related sales revenue is translated at average exchange rates. Beginning in 1979, we showed this exchange rate difference as a separate item in Cost of Goods Sold and, as well, have highlighted the net exchange impact on continuing operations to assist shareholders in making a meaningful analysis.

All exchange factors in total, excluding Discontinued Operations, show a net gain of $6.3 million in 1979 against a 1978 loss of $57.3 million.

	1979	1978
Effect of foreign currency exchange rate changes on cost of sales	**$ 18.6**	$(15.1)
Exchange adjustments	**(24.9)**	72.4
	$(6.3)	$ 57.3

The exchange adjustments line combines realized and unrealized exchange gains or losses on foreign transactions as well as the impact of rate fluctuations on translation exposure in each country.

COST OF GOODS SOLD
(1979 $2,381.8 million; 1978 $2,134.1 million)

We believe management's performance can best be judged when costs are calculated at the year's average foreign exchange rates. On this traditional basis, we reduced 1979's cost of goods sold to 80.1 per cent of sales compared with 1978's 81.1 per cent. However, this is still higher than the previous ten years' average. In 1979, sales increased by 13.0 per cent while cost of goods sold increased by 11.6 per cent, reflecting the Company's efforts to improve production efficiency.

FASB 8 requires us to measure the impact of fluctuating exchange rates in a different way. On this basis, our costs of goods sold increased marginally from 80.5 per cent in 1978 to 80.7 per cent in 1979.

Price controls in some markets, and greater competitive pressure in many, prevented recovery of all of our cost increases. The high price of sterling (which averaged in U.S. dollars $2.091 in 1979, $1.910 in 1978, and $1.724 in 1977) also caused difficulties because a large share of our production comes from the U.K., and in many markets must compete against machines produced in the U.S. and various European countries with relatively weaker currencies. These were more than offset by cost-cutting actions taken by the Company.

EXPENSES
(1979 $540.5 million; 1978 $608.9 million)

These comments relate to continuing operations only and exclude Construction Machinery.

Marketing, general and administrative expenses of $351.9 million were 11.8 per cent of sales, compared to 12.6 per cent in 1978. They increased by 5.0 per cent or $19.7 million over 1978 compared with a 13.0 per cent increase in sales.

Engineering and product development expenses were maintained at the 1978 level of 2.0 per cent of sales as a result of the completion of the introduction of major products and the

elimination of peripheral products. It is the Company's stated policy to give the highest priority to product development.

Interest rates, particularly in the U.S. and U.K., moved upward so that short- and long-term net interest costs climbed from $154.8 million to $164.2 million. However, as a percentage of sales, total net interest costs fell from 5.9 per cent to 5.5 per cent. Long-term loans continue to be repaid at maturity by short-term loans. Despite losses in 1978, borrowings in 1979 remained at levels comparable to the previous year through close control of assets.

FINANCE SUBSIDIARIES
(1979 $16.6 million; 1978 $14.9 million)

Our finance subsidiaries earned a net income in 1979 of $16.7 million compared with $16.3 million in 1978. Only $16.6 million appears in the manufacturing statement for 1979 and $14.9 million for 1978 since the remaining $0.1 million in 1979 and $1.4 million in 1978 was derived from Construction Machinery Operations and accordingly has been grouped in Discontinued Operations. The 1979 results were adversely affected by an exchange loss of $1.3 million. This arose from the weakening of the currencies against the U.S. dollar of some countries in which our finance companies are located. In contrast, the 1978 results included an exchange gain of $2.7 million.

ASSOCIATE COMPANIES
(1979 $4.6 million; 1978 $4.6 million)

Massey-Ferguson's share of the profits of companies in which we own between 20 per cent and 50 per cent of voting shares and exercise significant influence is recorded here. Most came from Massey-Ferguson de Mexico (up to September 4, when we sold our interest in that company).

In 1978, we also had significant income from Motor Iberica S.A. in Spain. As plans were underway to sell our interest in Motor Iberica, we did not include our proportionate share of its operating results in our 1979 income.

With the Mexican company sold, it was decided that our interests in the remaining Associate companies were not material enough to warrant maintaining on an equity basis. In future years, this line will not appear and the income from such Associate companies will be recorded under Miscellaneous Income when dividends are received.

CAPITAL EXPENDITURES
(1979 $76.6 million; 1978 $99.3 million)

At $76.6 million, capital expenditures totalled less than the $87.6 million provided for depreciation and amortization. Of the total expenditure, 30.0 per cent was spent on product projects, 40.8 per cent to replace or modernize equipment and facilities, and the remaining 29.2 per cent on worker safety, environmental matters and in respect of capitalized leases.

These capital expenditures are our lowest since 1973 reflecting the fact that the Company had completed several new product introductions. It also completed a number of rationalization programs at major facilities without interrupting production. It should be noted that the total capital expenditure since 1973 has been $838 million which is an average of $120 million per year.

Planned capital expenditures for 1980 are approximately $100 million. Most of the money will be used to develop new products for the 1980's, further modernize facilities and continue the aggressive product cost reduction program.

FINANCING

The Company raised little significant medium- or long-term debt in 1979, relying to a greater extent on short-term credit. Normal long-term debt repayments totalled $115.0 million. We replaced $35.8 million of this through new term debt. The main sources of the $35.8 million were: Australia $3.3 million, South Africa $3.5 million, France $7.4 million, Italy $10.0 million, United Kingdom $3.7 million and the Netherlands $5.0 million.

The consolidated total of long-term debt and bank borrowings is more than twice our equity, an inappropriate base for the Company. Directors and management agree that the Company needs substantial additional capital and, as recorded in the Report of the Directors, preparations for a new equity issue are well advanced.

EMPLOYEE RELATIONS

The process of reducing the work force, begun in 1978, continued in 1979, with plans made for further reductions in 1980. This has been a difficult experience for employees at all levels, but is essential if the future health of the Company is to be assured. Unions and governments continue to be constructively involved.

A number of projects have been introduced to improve communications and to involve employees more actively on work processes that affect them. We are giving increased emphasis to ways of working with employees to improve job satisfaction and personal development while at the same time increasing effectiveness of operations.

There were no major problems on the labour relations scene. In the U.K. settlements were reached within community pattern and run until April 1980. The production lost by the three-week strike at Perkins plants in the U.K. in August was recovered by the end of October. In the U.S., negotiations are currently underway to renew three-year agreements which expired October 31, 1979, but have been extended during the negotiation period. Settlement in the U.S. should be reached in early 1980. The Canadian agreements run until September 1980. Brazil suffered brief strikes that had only minor impact on operations. Over-all, 1979 was a year of stable labour relations.

EVOLUTION OF THE COMPANY

Significant changes were made in 1979 with the objectives of: further centralizing control of the Company at Head Office without diminishing local management initiative; establishing world-wide standards of productivity performance; establishing more discipline in the processes used to operate the business and establishing improvements and a longer horizon in the planning process. The new controls on the production and marketing of products are overseen by the Program Committee and the planning of new products and setting of capital expenditure levels is monitored by the Product and Capital Committee. Both of these new Head Office committees are made up of operational as well as staff executives. Although the effect of these changes in organization and

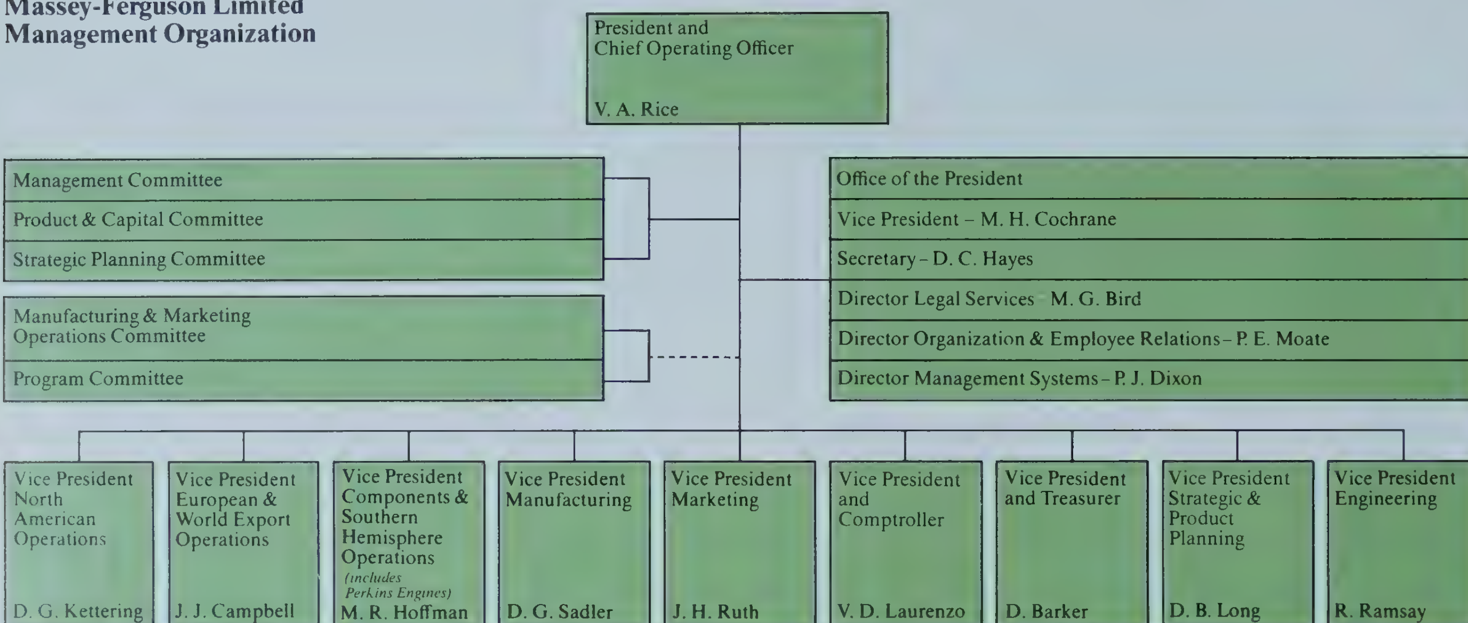
committee structures began to be felt immediately, their real contribution is expected to be longer term.

Immediate emphasis was given to the marketing function where a strong central team has been established focusing on sales growth in our core structure territories. We also made good progress in the improvement of quality of our present product lines and the introduction of longer-term policies and programs designed to strengthen our quality control systems in all of our factories.

The core structure and the related management organization will continue to evolve during 1980. Our primary resource allocations will be to those key products, markets and plants which are fundamental in our planning and to the shaping of the Company into a stable and profitable business.

With its achievements in 1979 and the programs identified for implementation in 1980, the Company has a sound structure on which to realize its strategy for the early 1980's. In the short term, the strategy is to complete the reorganization of the Company, to increase our operating profit as a percentage of sales to at least the industry average; to obtain a reasonable return on average assets employed; and to continue the improvement of our market performance begun in 1979. These are the goals by which management will be judged in the next few years.

Massey-Ferguson Limited Management Organization



FARM AND INDUSTRIAL MACHINERY

WORLD AGRICULTURAL OUTLOOK

World production of wheat and feed grains in 1979 is currently estimated at 1,136 million metric tons. This level of production is very close to the long-term trend but it is about five per cent below the record of 1,190 million metric tons produced in 1978. Wheat production is forecast at 401 million metric tons or 8.7 per cent below 1978 and feed grains at 735 million metric tons are down two per cent. World rice production will also fall short of the 1978 record by about five per cent but high protein crop production, primarily soybeans, is expected to increase almost 15 per cent.

Wheat and feed grain production will be down in all regions of the world with the exception of the United States, China and Brazil. Most of the shortfall will be in the U.S.S.R. where winter kill and drought resulted in a 1979 harvest about 61 million metric tons, or 27 per cent below the previous year.

World consumption of wheat and feed grains in 1979 is forecast at 1,165 million metric tons, up eight million tons. This relatively small increase is less than the growth in population but it follows a sharp increase of about 60 million metric tons in 1978.

With consumption exceeding production by about 30 million metric tons, carry-over stocks will be reduced by about 16 per cent. This lower level of stocks represents 53 days of consumption at current rates and is only eight days of consumption above the short supply situation which existed during the period 1973-75.

Free market prices for wheat and feed grains increased sharply during 1979 as production difficulties in various regions of the world, and in particular the U.S.S.R., became evident. Prices are expected to remain firm to higher through the spring of 1980 after which they are likely to become increasingly volatile as the growing season progresses. The current supply and distribution of supply suggest that prices could move up sharply if 1980 production were to remain at or near the 1979 level.

WORLD-WIDE SALES AND PRODUCTION

The Company's wholesale sales of farm and industrial machinery in 1979 were $2,469 million, an increase of $284 million or 13 per cent from 1978.

World-wide production of Massey-Ferguson agricultural and industrial tractors was 143,400 units, or two per cent below 1978, down primarily in the United Kingdom and France but up in North America by 32 per cent. Of the total, production of industrial tractors, which are derived from farm tractor components, was 10,900 units in 1979, or nine per cent above 1978.

Production of combine harvesters was 12,500 units, up nine per cent from 1978. The Company's largest combine factory at Brantford, Ontario, produced 8,900 units.

NORTH AMERICAN OPERATIONS

Record corn and soybean crops and near-record wheat harvests, together with strong export demand, provided a favourable environment in the Company's North American agricultural markets. Crop prices, on average, were substantially above the favourable levels of 1978.

As a result, farm cash receipts were at record levels, exceeding $130 billion in the United States and $13 billion in Canada notwithstanding a decline in the 1979 Canadian wheat harvest.

In contrast to 1978, the Company's inventories in dealer hands were at satisfactory levels for effective retail selling. This was an important factor in our ability to offset the loss in sales revenue caused by the discontinuation in 1978 of our consumer product and construction machinery lines.

The Company's progress in North America improved with the introduction of a number of new products. Production began in Des Moines of the new line of four-wheel-drive tractors, the 320 horsepower MF 4880 and the 265 horsepower MF 4840. A 225 horsepower model, the MF 4800, is being added in early 1980.

These top-of-the-line machines have been exceptionally well received in the important and expanding four-wheel-drive tractor market. The electronically controlled three-point-hitch version, first of its kind offered by a North American manufacturer, has created substantial interest.

The market for under-100-horsepower tractors, traditionally a strong one for Massey-Ferguson, was particularly buoyant in 1979, reflecting improved income in both the grain and livestock sectors.

Our new compact tractors have also been well received. This line ranges from 16 to 21 horsepower and includes four-wheel-drive versions, all available with a wide range of implements. Two narrow orchard tractors, modified versions of the MF 245 and the MF 265, were also introduced.

Significant additions to the Company's harvesting machinery line were made during the year. Updated versions of the MF 760 and MF 750 combines featured engine changes together with improvements in operator comfort and convenience and electronic monitoring of critical functions. Other additions included a 30-foot Quick-Attach rigid combine table, a new series of cornheads and a small-grain pickup reel. Increased sales of our conventional combines underlines the preference of many growers for the Company's proven combine technology, notwithstanding the competitive challenge of rotary designs.

Other new products included the MF 1560 round baler which produces the full six-foot bales and the MF 730 offset disc harrow, designed for heavy tillage.

Strong support to our dealers received major and continuous emphasis throughout the year. This included more timely product delivery, increased product and service training and additional merchandising support.

Throughout the year, North American management em-

With the introduction in 1979 of two new four-wheel-drive tractors, Massey-Ferguson's line of large two- and four-wheel-drive models is now fully competitive in the North American market in the 100 to 325 horsepower range. The new tractors are the 320 horsepower MF 4880 and the 265 horsepower MF 4840. A 225 horsepower model, the MF 4800, is being added in early 1980.

phasized its commitment to product quality. Newly organized Quality Departments have been established in each plant responsible for achieving the highest industry standards for product quality and its maintenance at superior levels.

EUROPEAN OPERATIONS

There was a record grain harvest in Western Europe during 1978 but so much of European agriculture is based on dairy farming and livestock that the relationship between total farm income and harvest levels does not apply to the extent that it does in North America. In 1979, there was considerable pressure on farm costs and mounting inflation in most farming sectors which resulted in a depressed market for agricultural machinery almost everywhere. Total industry demand was about five per cent below the previous year's level.

For tractors, although industry demand declined from 1978 levels, the Company maintained its position as the over-all market leader. The most significant event of 1979 was the introduction of the new 2000 series, high horsepower tractors, first in the French market and then progressively into a number of other European markets.

The number of MF 2000 tractors produced during the 1979 start-up year was small relative to the Company's total European tractor output but their extremely favourable reception holds a promise for the future expansion of market share.

For harvesting equipment, the problem of excess industry production capacity worsened in 1979 as total demand fell by over 10 per cent across Europe. To remain competitive, we took the decision, effective February 1980, to concentrate European harvesting production at our plant in Marquette, France, which is also the centre for product development and engineering for Europe and export markets.

United Kingdom

In a continuation of trends noted in 1978, the U.K. farm machinery market lacked buoyancy despite a relatively satisfactory farming year. This reflected both cyclical variations and continued pressure on farmers' costs. Industry sales of most products, notably tractors, were below those in 1978.

Massey-Ferguson's sales followed the industry trend and, in common with those of other U.K. manufacturers, were affected by component supply difficulties arising from labour relations problems in the engineering industry which resulted in loss of production in the peak sales period. Despite these difficulties, our U.K. factories performed well during the year.

The MF 2000 and 200 series tractors were introduced to the U.K. market and were very well received, indicating a good opportunity for increased sales as availability improves. At the turn of the year, Massey-Ferguson's over-all market share began to improve significantly.

France

Agricultural output remained at about the levels of 1978, although grain production was slightly below that year's record figure. Net farm income, however, was marginally down in real terms because of the impact of inflation and a continuing increase in costs.

As elsewhere, the reception of the 2000 series tractors was extremely favourable. As production increases progressively throughout 1980 these new tractors will add substantially to our performance in this market.

The effects of inflation reduced industry sales of harvesting machinery by more than ten per cent.

West Germany

The price-cost problems of farming in Europe increasingly affected farmers in West Germany as 1979 progressed and this was reflected in a downward trend in total farm machinery buying. Both tractor and combine sales for the year were below 1978 levels.

Keen competition from the domestic farm machinery industry which has capacity in excess of demand resulted in a drop in market share for Massey-Ferguson which it is expected will be progressively regained as new models of tractors and combines are introduced in 1980.

Italy

Gains in market share were achieved for both the imported Massey-Ferguson tractors and the Italian-produced Landini line, despite a decline in total purchases of farm machinery.

Production of two- and four-wheel-drive Landini agricultural tractors at Fabbrico continued at a high level to meet increased demand both from the domestic market and a number of our export territories.

The Aprilia plant is now providing additional capacity for the production of Landini crawler tractors and the range has been extended with the startup of a line of models in 100 to 120 horsepower category.

Other European Markets

The total market for tractors declined further below the record level of 1977 largely because of inflationary pressure on farm costs.

The MF 2000 series tractors were launched in several markets and farmer acceptance has been excellent. Our prospects in 1980 are good for capturing a major share of the growing market for tractors of over 100 horsepower. The total market for combines also declined in 1979.

SOUTHERN HEMISPHERE OPERATIONS

Brazil

The Government reinstituted measures to stimulate the agricultural sector, thus reversing the negative trend which began in mid 1976 when rural credit was first restricted.

Agricultural production in 1979 will show a five to six per cent increase over 1978 and for 1980 an increase of 10 per cent over 1979 is forecast.

Industry sales of agricultural tractors in 1979 reached 46,000 units which represents an increase of 11 per cent over 1978. Massey-Ferguson's market share held at 35 per cent. Full implementation of the Government's agricultural development program is expected to result in industry unit sales of 55,000 to 60,000 tractors in 1980.

During 1980, Massey-Ferguson do Brasil will launch two new products, the MF 5650 combine harvester and the MF 295 agricultural tractor.

Argentina

Though many economic indicators reflect a slow resurgence in the economy which reached its lowest level in 1978, it is too early to say whether the key problem of inflation will be dealt with.

Agricultural income increased in 1979 but tight and expensive credit policies resulted in farm machinery purchases remaining near the depressed level of 1978. Total industry sales of agricultural tractors were 6,500 units of which Massey-Ferguson's share was 32 per cent.

Although world-wide industry sales of combine harvesters were about equal to those in 1978, Massey-Ferguson's market share was up due to its improved penetration in North America. Exemplifying our advanced technology, more than one third of the 2,000 combines used by contractors in the annual Harvest Brigade from Texas to the Canadian border are Massey-Ferguson machines.

Mexico
The Company's interests in Massey-Ferguson de Mexico S.A. were sold on September 7, to Grupo Industrial Alfa, S.A., a major Mexican company with interests in a number of enterprises, including steel, chemicals and electronics. Alfa will continue the production of Massey-Ferguson products in Mexico under licence.

Continuing emphasis is being given by the Mexican Government to the production of food, with explicit programs underway for increasing agricultural mechanization. The agricultural tractor industry sales increased to 17,000 up 20 per cent over 1978. Massey-Ferguson maintained a 40 per cent share of the tractor market and also participated strongly in the sales of agricultural implements.

Australia
Excellent seasonal prospects over a wide section of the continent indicate that crop production will be at a high level for the second consecutive year. The market for farm machinery has been slow to respond to the improved conditions although the outlook for 1980 appears to be more positive.

Drought in some agricultural regions at the extremities of the wheat belt during the crucial crop development stages resulted in reduced sales of combine harvesters.

Industry sales of tractors were marginally ahead of 1978. Massey-Ferguson increased tractor deliveries in response to the excellent acceptance by farmers of our new models.

South Africa
Sales of farm machinery remained depressed due to high farm production costs and below-average rainfall. The only crop to register an increase was wheat. Other crops were down as much as 40 per cent from 1978.

With better weather toward the end of the year, sales of farm machinery improved somewhat and are expected to increase further in 1980. Massey-Ferguson maintained its share of about 21 per cent of the tractor market.

WORLD EXPORT OPERATIONS

Asian and African Export Markets
There was a decline of 20 per cent in total tractor demand in these markets. The reasons were varied and included political instability, economic problems and import restrictions, with the impact particularly severe in such major markets as Turkey and Iran.

Nevertheless, agriculture remains the priority of the great majority of governments in this region and receives preferential treatment. The outlook for farm mechanization, therefore, must continue to be promising in the medium- as well as the long-term. Our competitors recognize this and, in an environment of industry over-capacity, their sales efforts in a number of these markets increased significantly during the year.

Massey-Ferguson's ability to improve its over-all market position is due to the reputation of its product and its distribution, enhanced by the new 200 series tractors which will continue to be launched throughout the region in 1980. Thus, although there were substantial volume reductions in the market place, the Company's activities and those of its retail distribution network resulted in market leadership in such countries as Morocco, where we had a 40 per cent market share; Kenya, 35 per cent; Thailand, 40 per cent; Nigeria, 40 per cent; and Saudi Arabia, 50 per cent.

Massey-Ferguson continued to do well in Sri Lanka where the high level of sales achieved in 1978 was maintained, and in Japan where 2,000 units were sold during the year despite pressure from many domestic manufacturers. Substantial numbers of tractors were also sold in certain Middle-Eastern markets which previously had relied on imports from Eastern-bloc manufacturers offering attractive financing terms on government-to-government sales. Deliveries to Pakistan were double those of 1978 and our market share was up substantially.

China
Contacts between the Company and representatives of the Chinese Government continued throughout the year. There were a number of visits by Chinese delegations to Massey-Ferguson factories in France, the U.K., Canada and the United States, as well as visits by MF engineers to China.

Although the Government's approach to industrialization and mechanization of agriculture has slowed, China's interest in Massey-Ferguson products and technology continues to be active and a number of machines are being supplied for evaluation in several provinces.

Latin American Export Markets
The agricultural machinery market in the Latin American region is gradually recovering from the uncertainties brought on by more than 12 government changes within the last 18 months, low commodity prices and high oil prices.

During 1979, Massey-Ferguson continued its leading market position in most Caribbean markets and, together with other Latin American markets, achieved an increase to approximately 21 per cent in tractor market share. Import restrictions in Paraguay and Uruguay were lifted and our distributors were able to bring in the popular MF European-built tractors.

ASSOCIATES AND LICENSEES

Local assembly or manufacture of Massey-Ferguson machinery and diesel engines continued in a number of countries, either through Associate companies or on a direct licence basis. However, there were delays in the progress of some of the major projects with a resultant reduction in the planned supply of components from our own manufacturing sources. The largest cutback was in Turkey where lack of foreign exchange resulted in only 860 units being supplied in 1979 compared with 6,770 in 1978.

Iran
The revolution resulted in a setback to operations by the Iran Tractor Manufacturing Company, our licensee. The new tractor assembly facilities at Tabriz were ready to operate and forge, foundry, engine and implement facilities were at an advanced stage of development. The Government has confirmed its intention to proceed with the project so there is a possibility that shipments of tractor components from the U.K. for assembly at Tabriz could be resumed in 1980. Shipments of components in 1979 amounted to 650 sets compared with 2,100 in 1978.

Poland
Continuing economic problems affected the rate of progress on the development of the Ursus factory where Massey-Ferguson tractors and engines are to be built. Assembly of tractor components supplied from the U.K. began with about 2,200 sets delivered during 1979, and engine assembly also began.

The Company's production of industrial machinery, which includes industrial tractors, tractor-loaders and tractor-backhoe-loaders, increased nine per cent to 10,900 units in 1979. The one buoyant area in an otherwise flat world market was Europe where Massey-Ferguson increased its sales by 11 per cent and maintained its strong market penetration of more than 23 per cent.

Libya
The tractor assembly plant of our Associate, the Libyan Tractor Company, began operating during the year. Several hundred MF 200 series units were assembled and satisfactory progress is being made towards the planned capacity of 3,000 units a year.

Pakistan
Discussions about a joint venture have been discontinued and the Government of Pakistan has agreed to continue with the existing licensing agreement under which Massey-Ferguson tractors are assembled in the Pakistan Tractors Corporation plant in Lahore.

India
Despite industrial relations problems and power shortages, Tractors and Farm Equipment Limited, our Associate company, continued profitable operations by producing and selling over 5,000 tractors during the year.

Spain
Sales of Massey-Ferguson tractors produced by our Associate company, Motor Iberica S.A., were affected by an influx of imported tractors following a reduction in tariffs. However, in the growing 100 horsepower and over category, two new products from our Italian plant were received favourably and the MF 2000 series will assist in improving our market position when introduced in 1980.

Peru
During the latter half of the year, the Peruvian economy improved significantly, enabling an increase in production to be scheduled at the Trujillo factory of our Associate company where a modern range of tractors is manufactured.

Saudi Arabia
An agreement was signed in December with our distributor, E. A. Juffali and Brothers, establishing a joint venture company in which Massey-Ferguson will have a minority interest, for local assembly of up to 1,200 MF 200 series tractors annually.

INDUSTRIAL MACHINERY

Massey-Ferguson's line of industrial machinery includes industrial tractors, tractor-loaders and tractor-backhoe-loaders, all having a high degree of interchangeability of drive-train parts and engines with farm tractors. Industrial machinery is used widely in most construction work, particularly home building, as well as in landscaping, property maintenance and materials handling.

North American Operations
The North American market for industrial machinery continued for most of the year at the relatively strong levels of 1978. However, in the large U.S. market, 1979 housing starts were 15 per cent below 1978, a level expected to continue through 1980. Similarly, Canada showed a drop of 20 per cent with a further modest decline expected for 1980. The consequent reduction in demand for industrial machinery along with limited availability of certain models contributed to a lower level of unit sales for Massey-Ferguson in 1979. At year end, record high mortgage rates and efforts to restrain inflation were expected to further curtail the short-term growth of the housing market.

During the year, production of our largest tractor-backhoe-loader, the MF 60, was moved from Akron, Ohio, to Des Moines, Iowa, and the Akron plant was closed and subsequently sold.

European Operations
Production of Massey-Ferguson industrial machinery in the United Kingdom and the crawler models built in Italy was at a record high. Output was increased by eight per cent over 1978.

The United Kingdom is the largest market in Europe for industrial machinery. Although housing starts in 1979 showed a decline of 19 per cent from the previous year, the market for industrial machinery was reasonably buoyant and increased 12 per cent over 1978. Massey-Ferguson increased its share of the expanded market to over 20 per cent and sold in total a record number of over 1,000 units. With the exception of the U.K., housing activity throughout Europe was stable.

In France, sales recovered from 1978 and MF is now in second position in the industrial machinery market. Market share also improved in West Germany where we now have one third of the market and are well ahead of competitors.

In other export markets in Europe, sales were up seven per cent and we improved our leading position in the total market.

Asia and Africa
In the export markets of Asia and Africa, sales of industrial machinery are generally restricted to territories with urbanization programs in what are predominantly rural economies. In 1979, such programs were curtailed and sales were sharply lower. Although deliveries continued to some of the more developed countries where industrialization progressed, there was a total cutoff of exports to Iran which, until the revolution, was importing substantial numbers of these machines.

PARTS

The parts business, for farm and industrial machinery and Perkins engines, is the Company's third largest single activity in terms of dollar volume after tractors and diesel engines. Sales in 1979 totalled $426 million, a gain of 14 per cent over 1978. This is a profitable business for the Company, and sales have tended to follow a consistent upward trend over the years, little affected by sudden fluctuations in the market place.

Competition from specialist parts suppliers is keen and has been growing of late, but Massey-Ferguson has the advantage of both a sound supply base for parts and a world-wide network of distributors and dealers committed to the concept of total service backup for our machinery.

Added resources have been allocated to parts marketing and sales and the outlook for 1980 is therefore promising, with significant improvements expected over the satisfactory achievements in 1979.

Hanomag construction machinery has developed into one of the industry's most rugged and wide-ranging lines of wheel loaders, crawlers and excavators. A number of upgraded models were introduced in 1979 and upgrading progressed on other models. With the concerted efforts of our distributors, sales in the year were increased 12 per cent despite the discontinuance of sales in North America and several other markets.

CONSTRUCTION MACHINERY

In March 1978, faced with large losses in our Construction Machinery Operations, we announced our plans to investigate various means of disposing of part or all of the business as an ongoing operation. During that year a world-wide search was made for a buyer but it became apparent that an acceptable sale would not be possible in the short term. Concurrently, we embarked on a program to rationalize construction machinery manufacturing operations in Europe and discontinue sales in North America and certain other markets.

The strategy for the Construction Machinery Operations in 1979 was to reduce assets and use them more effectively and to pursue sales vigorously in our commitment to reduce the loss and to achieve a break-even position by 1980.

The 1979 objectives were met. Total sales of construction machinery were increased by 12 per cent to $284 million and the loss was cut to $10 million from $57 million in 1978.

We achieved this in a number of ways:

- Manufacturing was concentrated at the Hanomag facility in Hanover, West Germany, by transferring production there from the Aprilia factory in Italy. The crawler tractor plant at Sorocaba, Brazil, was closed and subsequently sold. Unit shipments from the Hanomag factory were up 21 per cent from 1978 and this was achieved with reduced manpower.
- The product line was improved; a number of models upgraded in 1978 were introduced and upgrading progressed on other machines.
- Sales efforts were concentrated in Europe and selected export markets. Increased market penetration was achieved in most major European markets; in Germany, Hanomag achieved a one percentage point increase, raising its share to 20 per cent of this its largest and most competitive market; in the U.K., sales were up 30 per cent in a static market; in France, sales penetration was maintained and in Italy our share increased in a stable market. Elsewhere in Europe, sales volume was up by 83 per cent over-all and market share doubled in several key markets with especially strong wheel-loader sales in Scandinavia and Holland. Sales of excavators alone in these markets increased by 70 per cent over 1978 and market share doubled.

  In other export areas, our construction machinery sales to key markets in Africa, the Middle and Far East were maintained in total, despite the virtual collapse of industry sales in most parts of Africa due to economic problems. Sales in Egypt showed a notable advance, and in the Far East particular progress was made in the Philippines and Malaysia.

  In Australia, a new arrangement was made for sales direct through a single distributor and this resulted in a six-fold increase in shipments. In South Africa sales trebled.

  In total, sales in all markets outside Germany were up by almost 10 per cent over 1978, in a year in which sales to North America were discontinued and sales to Latin America were minimal – an indication of the success of the strategy of concentration on selected markets.

As a result of this major turnaround, there was renewed interest by prospective purchasers of this segment of our business. Following discussions with several companies, we announced in November our agreement to sell the Hanomag construction machinery operations to IBH Holding A.G. of Mainz, West Germany, effective February 1, 1980.

Even though we could foresee a return to profitability in our construction machinery operations by 1980, the sale was necessary in our program to free up assets for use in our core structure. Industrial machinery operations have not been sold; the Company will continue to manufacture these products and sell them through its world-wide distribution network.

Under the agreement, Massey-Ferguson will continue to supply engines, hydraulic cylinders and other components which it has been selling to IBH for its current line of machinery. The agreement also provides for the continuity of supply of Hanomag products, parts and service through the Hanomag distribution network to its customers.

The first stage of a $37 million project to install individual computerized engine test cells was completed at the main Perkins plant in Peterborough, England. By replacing open test shops and manual systems, the new cells provide greatly improved controls of the test cycle for production engines as well as a better working environment for operators.

ENGINES

WORLD-WIDE SALES AND PRODUCTION

World-wide industry sales of diesel engines in 1979 showed a modest growth in the developed countries with Europe and North America continuing to show gains especially in industrial sectors. The rapid rise in the price of oil reinforced the trend towards diesel engine use particularly in North America. However, Company sales in developing countries were seriously affected by economic and political problems, notably in Nigeria, Iran, Turkey, the Middle East, and Korea. Sales to these areas declined significantly not only in terms of direct engine exports, but also in terms of exports, largely from the U.K., of machinery powered by Perkins engines.

The European markets are expected to hold up in 1980, but in North America the recession is likely to depress the demand for diesel engines in the industrial sector by the second quarter.

Sales of Perkins engines in 1979 were $504 million, an increase of 13 per cent over 1978. Total world production by Perkins, its Associates and licensees was 564,500 engines, three per cent over 1978. Perkins built 290,500 units at its wholly owned plants compared with 286,700 units in 1978, and its Associate and licensees produced 274,000 Perkins engines compared with 258,000 in 1978.

United Kingdom

Despite a number of major external disruptions, including severe winter weather and a national transport strike, our U.K. engine production met the requirements of both Massey-Ferguson and the third-party market. Total production of finished engines was 200,755 units and was comparable with production in the previous year.

While world-wide farm machinery demand was down, the third-party market for all other applications, including vehicle, industrial, construction equipment and marine, remained firm.

Shipment of engine component kits to support assembly operations outside the United Kingdom totalled 118,200 kits. This was down slightly due partly to the cessation of production at the Perkins Canton, Ohio, plant.

Investment continued primarily in new machine tools of advanced technology and the installation of the first section of individual computerized test cells to provide improved control of the test cycle for production engines.

North America

As part of a general consolidation program of its North American engines operations, Perkins Diesel Corporation ceased production at its Canton, Ohio, plant on October 31 and moved its headquarters to a Company facility at Wayne, Michigan.

The diesel engine models which the Canton plant had been producing are now being supplied from the Perkins manufacturing plant in Peterborough, England. At the time of its closure, the Canton plant was producing at an annual rate of 22,000 engines a year, considerably below its capacity.

Demand for the diesel engine models produced at Canton, which were used mostly to power farm and industrial equipment, had not kept pace with the unprecedented growth of demand for other Perkins engine types sold in the North American market. Important savings will be achieved by concentrating engine production at our other manufacturing plants.

In addition to re-organizing its North American operations, the Perkins Engines Group plans to increase its resources in the United States in terms of field service and engine parts supply.

Brazil

Perkins production was 57,000 units representing an increase of nearly 30 per cent over the previous year.

Perkins total market share was 30 per cent, an increase of five percentage points. A dramatic increase of 79 per cent in the sale of our vehicle engines was largely due to the successful launch of a General Motors pick-up truck with the new Perkins four-cylinder 236-cubic-inch diesel engine. Vehicle engine production was 29,500 units, representing 30 per cent market share, and industrial engine output was up 15 per cent.

Demand for Perkins agricultural engines showed a small decrease although the total market remained the same. Production was nearly 20,000 units. The export of component kits and finished engines was up 12 per cent.

The 1980 outlook is favourable due to continuing progress in vehicle sales and improvements in demand for farm machinery.

France

Assembly by Perkins Industries S.A. of the 96 horsepower, four-cylinder 318-cubic-inch engine for agricultural applications was 4,700 units. In addition, 3,400 diesel engines were reconditioned as well as 9,000 gasoline engines for P.S.A. Talbot (formerly Chrysler, France).

Volume of production of all engine types is expected to be maintained at the same level in 1980.

ASSOCIATES AND LICENSEES

Bulgaria

Negotiations, although at an early stage, are proceeding with the Balkancarimpex organization on a new licence agreement which will cover the existing engine range and expansion of the factory complex in Varna.

India

Introduction of a three-cylinder, 152-cubic-inch engine was delayed due to an eight-week strike which halted activity at

the Madras plant. Simpson & Co. Ltd., our licensee, is going ahead with plans to produce a truck using the Perkins six-cylinder 354-cubic-inch engine. Prototypes were completed for initial road test and production is planned for 1980.

Iran
The revolution caused a setback to the completion of construction of the engine factory at Tabriz but work may be resumed in 1980.

Korea
Production of Perkins engines started strongly but in mid-year the Korean economy was severely affected by oil price rises and domestic financial controls. Output by Hyundai Motor Company, the licensee, was 18,500 engines in 1979.

Poland
Assembly and testing of the three-cylinder Perkins diesel engines at the Ursus tractor plant is proceeding but at a slower rate than planned. About 1,000 engines were assembled during 1979 mainly from components supplied from the U.K. Several machining lines have been installed by the licensee and additional lines will be completed during 1980.

South Africa
The joint project for the production of Perkins and Daimler-Benz engines under licence is progressing well in the planning stages. Daimler-Benz engines are aimed chiefly at the vehicle market, while the Perkins three- four- and six-cylinder engines are aimed at the tractor, industrial and vehicle markets. The start of production is scheduled for July 1981.

Spain
Recession in the Spanish economy continued throughout 1979, with the heavy truck sector, in particular, being severely affected. As a result of the adverse economic conditions, engine production by our Associate, Motor Iberica S.A., was 66,500 units in 1979.

Production of the V8 640 engine is planned to start early in 1980 using component kits imported from U.K.

Yugoslavia
A period of 25 years of a successful and growing relationship with Industrija Motora Rakovica was celebrated in 1979. Negotiations are proceeding on a new licensee agreement which will upgrade the current engine range. Engine production in 1979 reached 40,600 units.

Argentina
As 1979 moved to a close, the Argentine market showed signs of gradual recovery particularly in the vehicle, industrial and marine sectors but farm machinery remained depressed. Production at Perkins Argentina was 17,300 units and it is expected that 1980 production will approach 25,000 engines.

Mexico
Demand continued to be strong in Mexico for all types of Perkins engines in all applications. Production by Motores Perkins S.A. increased 19 per cent to 25,000 engines. The outlook continues to be favourable for further growth and expansion in 1980. Production of the turbocharged 354-cubic-inch engine is planned for late 1980.

Peru
Following extremely depressed conditions in 1978, the Peruvian market showed a slow but steady recovery in 1979 as the country's balance of payments improved. Production of Volvo and Perkins engines by Motores Diesel Andinos S.A. increased by 10 per cent to reach 2,000 units.

NEW ENGINE PRODUCTS

The diesel engine market saw steady growth in the last year in two major sectors. The first is the world-wide automobile market, especially in the U.S.A. The second is in the truck market in the U.S.A., represented primarily by the dieselization of medium-duty trucks. Improvements to existing Perkins products, such as the increased use of turbocharging, will ensure improved cost effectiveness, fuel efficiency, legislation compliance, quality, durability and competitiveness.

Additions to the Perkins product range in 1979 included a new four-cylinder 108-cubic-inch model in the 30 to 50 horsepower sector which provides an upgraded, quieter engine with reduced oil consumption for agricultural and industrial applications. An automotive variant incorporating similar improvements will be introduced in 1980.

The 'clean' engine range, which has reduced noise, smoke and emissions characteristics, was extended by the introduction of a three-cylinder 152-cubic-inch engine. This engine was designed mainly for the forklift truck market where the Perkins 'Squish Lip' combustion system shows significant environmental benefits.

The automotive engine range will be extended in 1980 with a high speed, direct injection, four-cylinder engine of 224-cubic-inch displacement operating at 3,400 rpm. It will use the Perkins 'Squish Lip' combustion system, demonstrating its suitability for high rotational speed automotive applications. The result of advanced technology, this engine will have smooth driveability and improved fuel consumption.

The six-cylinder 354-cubic-inch engine family will be extended in 1980 by the introduction of a turbocharged automotive engine of 145 horsepower and a charge-cooled agricultural and industrial engine of 155 horsepower.

The Range 4 marine engine series which was successfully launched in late 1978 will be strengthened by the introduction early in 1980 of a 220 horsepower model. The power range of the Perkins marine engine family will be extended in late 1980 by the introduction of a new series of engines based on a 540-cubic-inch V8 model, providing 156 to 325 horsepower.

Future plans include turbocharged variants of the V8 540-cubic-inch engine for other applications including automotive, agricultural and industrial.

With respect to future engine design, recent events affecting the availability of liquid fossil fuel have resulted in the emergence of alternative fuels such as ethanol, methanol, alcohols, coal distillates, shale oil, vegetable oils and blends of these with diesel fuel. This will create marketing opportunities which the Engines Group had already anticipated with extensive research into fuel-tolerant engines capable of utilizing the most economic alternative energy sources locally available.

CONSOLIDATED STATEMENTS OF INCOME

Massey-Ferguson Limited (Incorporated under the Laws of Canada)
Years ended October 31, 1979 and 1978

	(Thousands of U.S. Dollars) 1979	1978 (Restated —Note 2)
Net Sales *(Notes 1(c), 2 and 10)*	**$2,972,966**	$2,630,978
Costs and Expenses:		
Cost of goods sold, translated at average exchange rates for the year	**2,381,778**	2,134,094
Effect of foreign currency exchange rate changes	* **18,630**	(15,100)
	2,400,408	2,118,994
Marketing, general and administrative expenses	**351,883**	332,187
Engineering and product development expenses *(Note 1(f))*	**58,242**	58,481
Interest on long-term debt	**75,707**	78,667
Other interest (net) *(Note 14(e))*	**88,459**	76,077
Exchange adjustments	**(24,902)**	72,387
Minority interest	**1,433**	39
Miscellaneous income	**(10,345)**	(8,981)
	2,940,885	2,727,851
Profit (Loss) before Items Shown Below	**32,081**	(96,873)
Provision for Reorganization Expense *(Note 11)*	** **(95,000)**	(72,600)
Income tax recovery (expense) *(Notes 1(h) and 5)*	**6,250**	(17,458)
Equity in net income of finance subsidiaries *(Note 1(a))*	**16,598**	14,857
Equity in net income of Associate Companies *(Note 1(d))*	**4,634**	4,596
Loss from Continuing Operations after Reorganization Expense	**(35,437)**	(167,478)
Loss from Discontinued Operations *(Note 12)*	**(23,018)**	(94,917)
Loss before Extraordinary Item	**(58,455)**	(262,395)
Extraordinary Item *(Note 13)*.	** **95,353**	
Net Income (Loss) for the Year	**$ 36,898**	$ (262,395)
Income (Loss) per Common Share *(in U.S. Dollars)* (After cumulative dividends on preferred shares)		
Loss from continuing operations after reorganization expense	**$ (2.38)**	$ (9.64)
Loss before extraordinary item	**$ (3.65)**	$ (14.84)
Net Income (Loss) for the Year	**$ 1.58**	$ (14.84)
(Favourable) unfavourable impact on Continuing Operations of Exchange Adjustments net of foreign currency exchange rate changes in Cost of Goods Sold	**$ (6,272)**	$ 57,287

*This item is the difference between cost of goods sold translated to U.S. dollars at average exchange rates and such costs translated at historical rates.

**The net impact on results of operations of the extraordinary item and the 1979 provision for reorganization expense charged to continuing operations is $353 favourable.

(See accompanying Notes to Consolidated Financial Statements)

CONSOLIDATED BALANCE SHEETS

Massey-Ferguson Limited
October 31, 1979 and 1978

ASSETS	(Thousands of U.S. Dollars) 1979	1978 (Restated —Note 2)
Current Assets:		
Cash	**$ 17,159**	$ 23,438
Receivables *(Note 3)*	**731,100**	556,718
Inventories, valued at the lower of cost and net realizable value—		
Raw materials and work in process	**584,275**	538,881
Finished goods	**513,323**	544,941
Total inventories	**1,097,598**	1,083,822
Prepaid expenses and other current assets *(Note 5)*	**89,853**	63,830
Total Current Assets	**1,935,710**	1,727,808
Investments:		
Finance subsidiaries—		
Shares, at equity in net assets *(Note 1 (a))*	**145,739**	124,114
Long-term advances	**2,114**	8,072
Associate Companies *(Note 1 (d))*	**54,196**	69,770
Other	**15,055**	11,354
	217,104	213,310
Fixed Assets, at cost *(Notes 1 (e) and 4)*	**1,119,384**	1,098,687
Less accumulated depreciation and amortization	**550,731**	496,445
	568,653	602,242
Other Assets and Deferred Charges *(Note 14(f))*	**23,977**	29,301
	$2,745,444	$2,572,661

On behalf of the Board:
Conrad M. Black, *Director*
Victor A. Rice, *Director*

LIABILITIES	(*Thousands of U.S. Dollars*) 1979	1978 (Restated —Note 2)
Current Liabilities:		
Bank borrowings	**$ 511,723**	$ 362,270
Current portion of long-term debt	**59,298**	115,009
Accounts payable and accrued charges	**907,365**	751,383
Income, sales and other taxes payable (*Note 5*)	**18,586**	51,980
Advance payments from customers	**12,534**	16,101
Total Current Liabilities	**1,509,506**	1,296,743
Deferred Income Taxes *(Note 5)*	**13,834**	64,368
Long-Term Debt *(Note 9)*:		
Bonds, debentures, notes and loans	**537,139**	619,809
Less instalments maturing within one year	**59,298**	115,009
	477,841	504,800
Convertible subordinated notes	**147,000**	147,000
	624,841	651,800
Minority Interest in Subsidiaries	**19,043**	18,428
SHAREHOLDERS' EQUITY (*Note 14(d)*):		
Share capital *(Note 8)*		
Preferred Shares	**95,790**	95,790
Common Shares	**176,888**	176,888
Retained earnings (including retained earnings of unconsolidated finance subsidiaries: October 31, 1979—$87,485; October 31, 1978 – $70,854) *(Note 7)*	**305,542**	268,644
	578,220	541,322
	$2,745,444	$2,572,661

(See accompanying Notes to Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Massey-Ferguson Limited
Years ended October 31, 1979 and 1978

	(Thousands of U.S. Dollars) 1979	1978 (Restated —Note 2)
SOURCE OF FUNDS		
Extraordinary item (less $31,402 not affecting working capital)	**$ 63,951**	
Proceeds from long-term debt issues	**35,819**	$ 168,989
Proceeds on disposal of fixed assets	**31,126**	11,340
Disposal of investments in Associate Companies and repayment of long-term advances by finance subsidiaries	**29,069**	
Decrease in other assets and deferred charges	**5,324**	1,589
Total funds provided	**165,289**	181,918
USE OF FUNDS		
Funds used in Operations *(Note 14(a))*	**29,964**	176,179
Additions to fixed assets	**76,553**	99,285
Reduction in long-term debt	**59,005**	158,579
Increase (decrease) in other investments	**3,701**	(739)
Reductions in minority interest (after reflecting $671 of dividends in 1979, $845 in 1978, paid by subsidiary companies)	**927**	203
Investments in Associate Companies and finance subsidiaries		11,111
Dividends		6,370
Purchase of preferred shares *(Note 8)*		3,001
Total funds used	**170,150**	453,989
Decrease in working capital	**(4,861)**	(272,071)
WORKING CAPITAL		
At beginning of year	**431,065**	703,136
At end of year	**$ 426,204**	$ 431,065
CHANGES IN ELEMENTS OF WORKING CAPITAL		
Current assets—increase (decrease):		
Cash	**$ (6,279)**	$ 10,863
Receivables	**174,382**	(19,944)
Inventories	**13,776**	(52,128)
Prepaid expenses and other current assets	**26,023**	(8,499)
	207,902	(69,708)
Current liabilities—(increase) decrease:		
Bank borrowings and current portion of long-term debt	**(93,742)**	(132,220)
Accounts payable and accrued charges	**(155,982)**	(55,077)
Income, sales and other taxes payable	**33,394**	(5,394)
Advance payments from customers	**3,567**	(9,672)
	(212,763)	(202,363)
Net Decrease in Working Capital	**$ (4,861)**	$(272,071)

(See accompanying Notes to Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Massey-Ferguson Limited
Years ended October 31, 1979 and 1978

	(Thousands of U.S. Dollars) **1979**	1978
Balance at Beginning of Year—as Previously Reported	**$267,843**	$529,577
Adjustment arising from change in basis of accounting for sales to North American dealers (net of income taxes of $520 in 1979 and $8,468 in 1978) (*Note 2*)	**801**	6,487
Balance at Beginning of Year—as Restated	**268,644**	536,064
Net income (loss) for the year	**36,898**	(262,395)
Dividends *(Note 7)*		(6,370)
Surplus on purchase of preferred shares *(Note 8)*		1,345
Balance at End of Year	**$305,542**	$268,644

(See accompanying Notes to Consolidated Financial Statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 1979 and 1978 *(in U.S. Dollars)*
(The figures for 1978 have been restated to reflect the accounting change explained in Note 2 and the segregation of discontinued operations explained in Note 12).

1. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared by management following accounting policies generally accepted in Canada. Except as indicated in Note 14(h), they are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies except wholly owned finance subsidiaries, the combined statements of which are set out separately (see page 36). The investment in shares of these subsidiaries is carried in the Consolidated Balance Sheets at the equity in their net assets and their earnings have been included in the Consolidated Statements of Income. The Company considers that this basis of presentation is more informative than full consolidation since (a) it affords a basis of comparison with other major companies in the industry, the larger of which are U.S. based and do not consolidate their finance subsidiaries, (b) it recognizes that these subsidiaries' operations are financed on a different basis than manufacturing and trading operations and that, in North America (which accounts for 55 per cent of the combined finance subsidiaries' assets), there are substantially greater restrictions on the transfer of assets from the finance subsidiaries, and (c) it avoids the implication that the concept of working capital may be appropriately applied to the finance subsidiaries' operations. By way of supplementary information, summarized balance sheets at October 31, 1979 and 1978 and summarized statements of income for the years then ended are set out on page 39 to show the over-all position if the accounts of the finance subsidiaries had been consolidated.

(b) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: inventories carried at cost, non-current assets, certain prepaid expenses and deferred income taxes, and related charges or expenses, at historical rates of exchange; all other assets and liabilities, at exchange rates prevailing at the end of the year; income and expenses (other than those indicated above), at average rates for the year. Translation gains or losses are included in income.

(c) Sales and Receivables

Sales are recorded at the time of shipment to distributors, dealers and other customers. (Refer to Note 2 describing a change in method of accounting.) A portion of the receivables consists of non-interest bearing notes received from dealers. Although these include notes maturing beyond one year (subject to earlier settlement when the product is sold by the dealer), they are included in current assets in accordance with accounting practice in the industry.

(d) Investments in Associate Companies

Associate Companies are those in which the Company owns 50 per cent or less of the voting shares. Investments in such companies

are carried in the Consolidated Balance Sheets (a) in the case of continuing investments in Associates over whose operating and financial policies the Company exercises a significant influence, at original cost plus the Company's share of undistributed earnings since acquisition (the equity method), and (b) in the case of other Associates, at original or deemed cost (the cost method). Deemed cost is the carrying value of an investment previously accounted for on the equity method at the date such method becomes inappropriate and ceases to be used. The reduction in 1979 in the total carrying value of these investments arose principally from the sale of the shares of those Associate Companies accounted for on the equity method, which took place during the year. At October 31, 1979, all of the Company's investments in Associate Companies were accounted for on the cost method.

(e) Fixed Assets

Additions to fixed assets are recorded at cost. Depreciation of facilities is provided on a straight-line basis in substantially all of the companies, at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	10 to 50 years
Machinery and equipment	3 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and minor product changes is charged against income at the time of purchase.

When fixed assets are disposed of, their cost and related depreciation are removed from the accounts and any related gain or loss is included in income.

(f) Research and Development Costs

Research and development costs, most of which are included in Engineering and Product Development Expenses, are expensed as incurred (1979—$44,318,000, 1978—$47,864,000).

(g) Pensions

The majority of employees are covered by government and Company pension plans. The costs of these plans are charged against income each year and include amounts for current service and amortization of past service costs. Past service costs in trusteed plans are generally being amortized and funded over periods of 15 to 25 years. (See Note 6(d).)

(h) Income Taxes

The Company follows the deferred method of tax allocation in accounting for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) can result in deferred or prepaid taxes.

Investment tax credits are accounted for on the flow-through method.

The benefits of loss carry-forwards are generally not recognized until realized. The multinational nature of operations is such that, on a continuing basis, certain subsidiaries are incurring losses (without recognition of the potential carry-forward tax benefits) at the same time that other subsidiaries are realizing the tax benefit of previous losses. On a consolidated basis these annually recurring tax recoveries are not considered to be extraordinary in nature and are accordingly reflected as a reduction of current income tax charges when realized.

Dividend payments from subsidiary companies in a number of countries are subject to withholding and other foreign taxes at various rates and in respect of certain future dividend remittances additional Canadian taxes may be payable in subsequent years.

Provision is made for the related taxes on dividends anticipated in the future out of accumulated earnings. Of the balance of unremitted earnings included in consolidated retained earnings at October 31, 1979, a portion would not be subject to tax; the remainder (estimated at approximately $121,000,000 at October 31, 1979 and $112,000,000 at October 31, 1978) is part of the amount that has been reinvested on a long-term basis and such taxes have accordingly not been provided.

2. Change in Method of Accounting for Sales to North American Dealers

In 1973 the Company adopted the settlement method of accounting for wholegoods sales to its North American dealers, while continuing to account for other sales on the wholesale basis. Under the settlement method, sales and resulting profits are recognized at the time of settlement by the dealer rather than when the product is shipped to the dealer as is done under the wholesale method of accounting. Also, under the settlement method, amounts receivable from such dealers under deferred floor-plan arrangements are classified as a separate item on the balance sheet and are carried at the lower of cost or net realizable value of the finished goods concerned rather than in receivables at net selling price as is done under the wholesale method.

Although the Company believes there are certain advantages to the settlement method, a detailed review of the overall impact of using the settlement method has indicated that the wholesale method of accounting is preferable in the Company's circumstances primarily because (a) it affords a better basis of comparison with other major companies in the industry who follow the wholesale method, (b) it increases uniformity in methods of accounting among the Company's subsidiaries and (c) it eliminates the need for maintaining dual accounting systems due to the requirements for reporting on the wholesale method to debt holders.

Accordingly, the Company has changed to the wholesale method of accounting for sales to North American dealers in 1979 and the 1978 consolidated financial statements have been restated on the new basis. The balance of retained earnings at the beginning of 1979 reflects a retroactive credit of $801,000 (1978—$6,487,000) representing the cumulative adjustment (net of tax) required in respect of prior years. The difference of $5,686,000 is applicable to the year 1978 and is reflected in the restatement of the 1978 comparative figures for net income. The effect of this accounting change for 1979, and for 1978 as previously reported, is as follows for the items shown below:

	(*Thousands of U.S. Dollars*) Favourable (Unfavourable)	
	1979	1978
Net sales	**$88,224**	$ 30,646
Loss from continuing operations	**20,399**	(5,608)
Loss before extraordinary item and net income or loss for the year	**20,574**	(5,686)
Income or loss per common share (in U.S. Dollars after cumulative dividends on preferred shares)	**$ 1.13**	$ (0.31)

Under accounting principles generally accepted in the United States this change in method of accounting would be accorded a different treatment than that followed under Canadian accounting principles. (See Note 14(h).)

3. Receivables

(a) Receivables include amounts due from finance subsidiaries of $57,634,000 in 1979 and $22,535,000 in 1978.

(b) Receivables are shown net of the following provisions:

	1979	1978
Allowance for doubtful notes and accounts	**$ 9,230,000**	$ 9,308,000
Discounts, volume and performance bonuses, returns and other allowances	**25,092,000**	15,304,000
Unearned interest	**2,221,000**	2,326,000
	$36,543,000	$26,938,000

4. Fixed Assets

1979	Cost	Accumulated Depreciation and Amortization	Net
Land	**$ 23,387,000**		**$ 23,387,000**
Buildings	**281,725,000**	**$110,245,000**	**171,480,000**
Machinery and equipment	**685,688,000**	**385,001,000**	**300,687,000**
Production tooling	**128,584,000**	**55,485,000**	**73,099,000**
Total	**$1,119,384,000**	**$550,731,000**	**$568,653,000**

1978	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 24,212,000		$ 24,212,000
Buildings	279,279,000	$102,380,000	176,899,000
Machinery and equipment	671,238,000	350,711,000	320,527,000
Production tooling	123,958,000	43,354,000	80,604,000
Total	$1,098,687,000	$496,445,000	$602,242,000

Depreciation, and amortization of production tooling charged to operations are as follows:

	1979	1978
Depreciation	**$61,369,000**	$56,690,000
Amortization	**26,230,000**	20,742,000
	$87,599,000	$77,432,000

5. Income Taxes

Accounting policies with respect to income taxes are set out in Note 1(h). Deferred income taxes are presented on the Consolidated Balance Sheets as follows:

Net current deferred tax debits of $21,141,000 in 1979 (net credits of $22,918,000 in 1978), resulting from current timing differences between taxable and reported income (1978 includes Stock Appreciation Relief in the United Kingdom), are grouped with Prepaid Expenses and Other Current Assets (Income, Sales and Other Taxes Payable in 1978).

Non-current deferred income taxes ($13,834,000 in 1979 and $64,368,000 in 1978), resulting primarily from capital cost allowances claimed for tax purposes in excess of depreciation and amortization recorded in the accounts, are shown separately.

The relationship between tax expense and pre-tax accounting income is affected by a variety of tax rates in the many countries in which the Company operates as well as by investment, loss carry-forward and other tax credits. Income taxes were reduced by tax credits arising from prior years' losses which, net of other tax adjustments relating to prior years, amount to $4,686,000 in 1979 and $568,000 in 1978.

At October 31, 1979, certain companies had tax losses aggregating $460,352,000 (October 31, 1978—$332,389,000) available to be carried forward for which potential recoveries have not been recognized in the accounts. These loss carry-forwards expire as follows: 1980—$2,792,000; 1981—$3,661,000; 1982—$22,683,000; 1983—$35,721,000; 1984 and beyond—$395,495,000. At current tax rates, the tax recoveries, if realized, would amount to approximately $202,015,000 (1978—$145,390,000).

6. Contingent Liabilities, Commitments, etc.

(a) Contingent liabilities relating to notes receivable discounted and bills guaranteed etc., were $137,500,000 at October 31, 1979 ($127,300,000 at October 31, 1978).

(b) Under subscription agreements relating to short-term bank borrowings and senior and subordinated notes of the North American finance subsidiaries, Massey-Ferguson Limited has agreed that it will ensure that assets are maintained in those companies in certain specified relationships with their indebtedness.

(c) Approved capital expenditure programs outstanding at the year end were $65,000,000 including capital commitments of approximately $14,000,000 (1978—$115,000,000 including capital commitments of $32,000,000).

(d) Pension expense including past service costs was $93,000,000 in 1979 and $86,000,000 in 1978. At the latest valuation dates, the actuarially computed value of vested benefits exceeded the market value of pension fund assets and balance sheet accruals by approximately $49,400,000 and unfunded past service obligations were approximately $111,100,000. See note 1(g) regarding the basis of accounting for pension costs.

(e) As indicated in Note 13, deferred income taxes relating to United Kingdom inventory tax relief previously recorded for fiscal years 1973 through 1978 were reversed during 1979. The July 26, 1979 U.K. Budget made that portion of the aforementioned inventory tax relief related to fiscal years 1973 and 1974 permanent, however the tax relief related to years 1975 through 1979 (approximately $69,700,000 in total) is subject to recapture should the Company's U.K. inventories fall below base year levels. Provision therefor will not be made in the accounts so long as it continues to be probable that such recapture will not occur.

7. Dividends and Debt Covenants

(a) No dividends were declared in 1979. Dividends declared in 1978 were as follows:

Preferred shares (Cdn. $0.63 per share)	
Series A	$ 902,000
Series B	1,352,000
Common shares (Cdn. $0.25 per share)	4,116,000
	$6,370,000

Cumulative dividends on the Series A and B preferred shares are in arrears to the extent of Cdn. $4.38 (U.S. $3.69) per share, representing seven quarterly dividends. In the event that dividends on preferred shares of any series are in arrears to the extent of eight quarterly dividends, then, until all arrears of dividends on all outstanding preferred shares shall have been paid, each holder of preferred shares shall be entitled to one vote per share for each preferred share held.

(b) In various long-term debt agreements the Company had originally agreed to maintain "Consolidated Net Tangible Assets" at not less than 200 per cent of "Consolidated Funded Indebtedness" and "Consolidated Current Assets" at not less than 145 per cent of "Consolidated Current Liabilities" (all quoted terms being as defined in the debt agreements, which definitions do not directly correspond with the accounting classifications set out in the Consolidated Balance Sheets).

During 1979, the terms of such debt obligations were renegotiated and the present commitment is to maintain (a) "Consolidated Net Tangible Assets" at not less than 150 per cent of "Consolidated Funded Indebtedness" until October 31, 1980, at not less than 175 per cent until October 31, 1981 and at not less than 200 per cent thereafter and (b) "Consolidated Current Assets" at not less than 120 per cent of "Consolidated Current Liabilities" until October 31, 1980, at not less than 130 per cent until October 31, 1981 and at not less than 145 per cent thereafter.

At October 31, 1979, the Company was in compliance with these revised debt test requirements and the Company is confident that the improvements in operating performance that have occurred and that are expected to result from the action programs already taken, or now underway, will ensure continued compliance with its debt test requirements. In addition, the Company has under consideration a number of plans for strengthening its financial position.

Certain of the Company's long-term debt agreements contain limitations on the payment of cash dividends on both the preferred and common shares (and on the purchase or retirement of preferred or common shares other than pursuant to sinking fund or other purchase requirements). Under the most restrictive of these, cash dividends on preferred and common shares (plus amounts expended to purchase or retire preferred or common shares) may not exceed U.S. $30,000,000 plus 75 per cent of consolidated net income, as defined, earned after November 1, 1977 minus 100 per cent of consolidated net losses, as defined, incurred after that date. Under its loan agreements the Company is also precluded until October 31, 1981 from declaring any cash dividend on any of its preferred or common shares unless, after giving effect to the proposed dividend, "Consolidated Net Tangible Assets" are equal to at least 200 per cent of "Consolidated Funded Indebtedness" and "Consolidated Current Assets" are equal to at least 145 per cent of "Consolidated Current Liabilities".

As a result of the dividend restrictions described above, and the incurrence during the first quarter of 1978 of a net loss in excess of $30,000,000, the Company subsequent to January 31, 1978 suspended dividends on the cumulative preferred shares and the common shares. As at October 31, 1979, cumulative dividends on Series A and B preferred shares are in arrears to the extent of $3.69 per share, or $14,114,000 in total. Dividends on the Company's common shares may not be resumed until all dividends in arrears have been paid on the preferred shares, and preferred share dividends may not be resumed until net income, as defined, accumulated after October 31, 1979 exceeds approximately $217,000,000.

Of consolidated retained earnings, $199,000,000 at October 31, 1979 ($175,000,000 at October 31, 1978) represents the Company's equity in profits of various subsidiaries and Associate Companies outside North America which have not been remitted to Canada. Transfers of earnings from such companies are generally subject to the approval of exchange control authorities, but permission to pay dividends, within reasonable and prudent financial limits as required for corporate purposes, is normally obtainable.

8. Share Capital, Stock Options and Reservation of Shares

	1979 and 1978		
	Shares Authorized	Shares Issued and Outstanding	Amount paid in
Share capital consists of:			
$2.50 (Cdn.) Cumulative Redeemable Preferred Shares of a par value of $25 (Cdn.) each			
—Series A	**1,526,300**	**1,526,300**	**$ 37,391,000**
—Series B	**2,298,500**	**2,298,500**	**58,399,000**
Common shares without nominal or par value	**25,000,000**	**18,250,350**	**176,888,000**

Except when preferred share dividends are in arrears, the Company is obligated to purchase in the open market up to 16,700 preferred shares per month if the price falls below $25 (Cdn.) per share, up to a maximum of 200,400 shares in any one year. However, if either Series A or Series B preferred share dividends are in arrears the Company is precluded by the provisions attaching to these shares from making any such purchases until all dividends and dividend arrears on both series are fully paid. The first failure to pay a dividend on its normal due date on either series of preferred shares occurred on March 31, 1978. (See Note 7.) During the period November 1, 1977 to March 31, 1978 the Company purchased 73,700 Series A and 100,000 Series B preferred shares in the open market, thereby reducing the par value of preferred share capital by $4,346,000 at a cost of $3,001,000. The difference of $1,345,000, which represents "Contributed Surplus", has been included in "Retained Earnings" rather than being shown separately on the balance sheet.

Commencing five years after issue (Series A issued in 1975, and series B issued in 1976), the preferred shares may be redeemed, at the option of the Company, at a premium of $1.25 (Cdn.), such premium reducing by $0.25 (Cdn.) per share annually for five years and thereafter at par. This redemption privilege is, however, subject to the restrictions on share purchases or share redemptions set out in Note 7.

There are reserved for possible future issue 215,350 common shares for employee stock options and 3,267,000 common shares for conversion of convertible subordinated notes. No stock options were outstanding at October 31, 1979 or 1978.

9. Long-Term Debt

Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31.

	(*Thousands of U.S. Dollars*) 1979	1978
(a) Bonds, debentures, notes and loans:		
Massey-Ferguson do Brasil S.A. (Brazil):		
Bank loans maturing 1980-84 repayable in U.S. dollars bearing interest at ¾%—2½% above Eurodollar interbank rate	**$ 22,859**	$ 29,557
Motores Perkins S.A. (Brazil):		
Bank loans maturing 1980-83 repayable in U.S. dollars bearing interest at ⅞%—2¼% above Eurodollar interbank rate	**8,071**	13,900
Massey-Ferguson S.A. (France):		
Bank loans maturing 1981-85 bearing interest at 1.95% above base rate	**24,395**	25,625
Massey-Ferguson S.p.A. (Italy):		
Bank loan maturing 1981-82 repayable in U.S. dollars bearing interest at 1.3% above Eurodollar interbank rate	**10,000**	
Massey-Ferguson Holdings Limited (United Kingdom):		
7½% Loan Stock maturing 1986-92	**16,604**	16,548
Bank Loans maturing 1980-84 bearing interest at various London bank market rates	**38,604**	49,168
Massey-Ferguson Inc. (U.S.A.):		
8.55% Promissory Notes maturing 1980-84	**26,265**	30,900
5⅞% Subordinated Notes maturing 1980-84	**12,000**	13,560
Massey-Ferguson (Delaware) Inc. (U.S.A.):		
9% Senior Notes maturing 1983-97	**150,000**	150,000
Perkins Diesel Corporation (U.S.A.):		
Capitalized value of property and equipment lease terminating 1993 discounted at 10%	**25,541**	26,370
General Purpose Loans (Repayable in U.S. Dollars):		
9½% Debentures maturing 1991	**66,000**	70,500
9¾% Sinking Fund Debentures maturing 1980-82	**32,000**	34,000
9% Bank Loan maturing 1979		10,796
Promissory Notes maturing 1979 bearing interest at 1% above Eurodollar interbank rate		15,000
Other Long-Term Debt (*Note 9(d)*)	**104,800**	133,885
	$537,139	$619,809

	1979	1978
(b) Convertible subordinated notes:		
Massey-Ferguson (Delaware) Inc. (U.S.A.):		
10% Convertible Subordinated Notes maturing 1988-92	**$147,000**	$147,000

These notes are convertible into common shares of Massey-Ferguson Limited at an initial price of U.S. $45.00 per share rising to U.S. $55.00 per share in 1982. There is no dilution of 1979 or 1978 results per common share as a result of this convertible feature.

(c) Sinking fund requirements and debt maturities during the next five years are as follows: 1980—$59,298,000; 1981—$57,732,000; 1982—$77,908,000; 1983—$45,724,000; 1984—$56,813,000.

(d) Other long-term debt includes long-term loans each of which is less than $10,000,000.

10. Business Segment Information

The Company operates in two industry segments: Farm and Industrial Machinery, involving the manufacture and sale of farm and industrial tractors, farm balers, harvesters, other agricultural implements and industrial loaders, and Engines, involving the production and sale of multi-cylinder, multi-purpose diesel engines.

Operations and identifiable assets by industry segment and geographic region are presented below. 1978 segment information has been reclassified to exclude the results of discontinued Construction Machinery Operations, as explained in Note 12, and to give effect to the change in accounting described in Note 2.

(Millions of U.S. Dollars)

	1979				1978			
Industry Segments	Farm and Industrial Machinery	Engines	Adjustments and Eliminations	Consolidated	Farm and Industrial Machinery	Engines	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	$2,469	$ 504		$2,973	$2,185	$ 446		$2,631
Intersegment sales		224	$ (224)			183	$ (183)	
	$2,469	$ 728	$ (224)	$2,973	$2,185	$ 629	$ (183)	$2,631
Profit before items shown below	$ 169	$ 58	$ (27)	$ 200	$ 92	$ 57	$ (21)	$ 128
Interest expense, net				(164)				(155)
Exchange adjustments net of foreign currency exchange rate changes in Cost of Goods Sold				6				(57)
General corporate expense, net				(10)				(13)
Profit (loss) before Provision for Reorganization Expense, Income Taxes, Equity in net income of finance subsidiaries and Associate Companies, Loss from Discontinued Construction Machinery Operations and Extraordinary Item				$ 32				$ (97)
Identifiable assets	$1,910	$ 430	$ (58)	$2,282	$1,701	$ 364	$ (14)	$2,051
Discontinued Construction Machinery Operations				175				245
Investment in finance subsidiaries and Associate Companies				202				202
Corporate assets				86				75
Total assets				$2,745				$2,573
Depreciation and Amortization (excluding CM)	$ 60	$ 22		$ 82	$ 53	$ 20		$ 73
Capital expenditures (excluding CM)	$ 45	$ 31		$ 76	$ 72	$ 22		$ 94

	1979						1978					
Geographic Regions	Canada	U.S.	Latin America	Europe and Other	Adjustments and Eliminations	Consolidated	Canada	U.S.	Latin America	Europe and Other	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	$ 219	$ 852	$ 386	$1,516		$2,973	$ 189	$ 652	$ 312	$1,478		$2,631
Sales among geographic regions	274	142	5	227	$ (648)		189	110	3	160	$ (462)	
	$ 493	$ 994	$ 391	$1,743	$ (648)	$2,973	$ 378	$ 762	$ 315	$1,638	$ (462)	$2,631
Profit (loss) before items shown below	$ 50	$ 1	$ 43	$ 133	$ (27)	$ 200	$ 1	$ (22)	$ 31	$ 132	$ (14)	$ 128
Interest expense, net						(164)						(155)
Exchange adjustments net of foreign currency exchange rate changes in Cost of Goods Sold						6						(57)
General corporate expense, net						(10)						(13)
Profit (loss) before Provision for Reorganization Expense, Income Taxes, Equity in net income of finance subsidiaries and Associate Companies, Loss from Discontinued Construction Machinery Operations and Extraordinary Item						$ 32						$ (97)
Identifiable assets	$ 273	$ 781	$ 241	$1,050	$ (63)	$2,282	$ 224	$ 700	$ 251	$ 892	$ (16)	$2,051
Discontinued Construction Machinery Operations						175						245
Investment in finance subsidiaries and Associate Companies						202						202
Corporate assets						86						75
Total assets						$2,745						$2,573

Intersegment and interregional sales are accounted for at prices which the Company believes approximate market.

As stated above, the profit of $32 (1978 loss—$97) is before Provision for Reorganization Expense of $95 (1978—$73). This provision is allocated as follows: by industry segment, $71 (1978—$55) to Farm and Industrial Machinery and $31 (1978—$5) to Engines; by geographic region, $1 (1978—$1) to Canada, $27 (1978—$8) to U.S., $2 (1978—$7) to Latin America and $72 (1978—$44) to Europe and Other; in each case, the balance of $(7) (1978—$13) relates to general corporate expense and Associate Companies.

11. Provision for Reorganization Expense

In 1978 various programs were initiated to cope with problems adversely affecting operations and financial position. During 1979, new opportunities were identified and certain additional programs initiated.

The estimated net cost of these programs is shown as a separate item on the Consolidated Statements of Income under the caption "Provision for Reorganization Expense" in the case of continuing operations, and as part of "Loss from Discontinued Operations" in the case of the construction machinery business. The principal components, after reclassifying the 1978 provision to exclude costs attributable to discontinued construction machinery operations, as explained in Note 12, are as follows:

	(Thousands of U.S. Dollars) **1979**	1978
Rationalization and realignment of manufacturing and other facilities (consisting principally of relocation expenses, employee termination and redundancy, inventory and fixed asset write-downs, and provision for operating losses and other closure costs, net of gains on disposal of other fixed assets)	**$ 96,000**	$ 63,800
Net (gains) losses on investments whose disposition is either completed or planned	**(1,000)**	8,800
Total	**$ 95,000**	$ 72,600

In addition to costs already incurred, the above provisions, and provisions for Reorganization Expense and for loss on disposal shown as part of Discontinued Operations (see Note 12), include Management's best calculations and estimates of the costs still to be incurred. However, because of the complexities of certain of the programs and the period of time required to complete them, it is not possible to make a precise determination of the eventual total cost, which may be more or less than the amounts provided.

12. Discontinued Operations

As discussed in Note 15(a), the Company signed an agreement on November 27, 1979 to sell the Hanomag construction machinery business effective February 1, 1980. As a result of this sale, the Company will complete its phase-out of the manufacture and sale of construction machinery world-wide.

Operating results for the construction machinery business and provision for loss on disposition, including operating losses through to the effective sale date, are segregated from results of Continuing Operations and are presented as "Loss from Discontinued Operations" in the Consolidated Statements of Income, details of which are as follows:

	(Thousands of U.S. Dollars) **1979**	1978
Net Sales	**$ 284,076**	$ 253,187
Costs and Expenses	**294,060**	310,298
Loss before Reorganization Expense and Income Taxes	**(9,984)**	(57,111)
Provision for Reorganization Expense	**1,931**	(43,400)
Loss before Income Taxes	**(8,053)**	(100,511)
Income tax recovery	**29**	5,594
	(8,024)	(94,917)
Provision for Loss on Disposal of Discontinued Operations (including provision for operating losses of $4,800)	**(14,994)**	
Loss from Discontinued Operations	**$ (23,018)**	$ (94,917)

The 1978 Provision for Reorganization Expense of $43,400,000 consists of provisions for rationalization and restructuring of construction machinery manufacturing operations in Europe, and discontinuance of sale of construction machinery in North America and several other markets (consisting principally of relocation expenses, employee termination and redundancy, dealer discounts and allowances, inventory write-downs and other closure expenses). The 1979 recovery of $1,931,000 consists largely of reversal of provisions made in 1978 which were not required and profits on disposition of certain fixed assets.

The Consolidated Statement of Income for 1978 has been reclassified to conform with the current year's presentation. The Consolidated Balance Sheet at October 31, 1979 includes assets of the Discontinued Operation at estimated realizable values consisting of receivables, inventory and fixed assets of $175,000,000 and Hanomag liabilities of $93,800,000.

13. Extraordinary Item

The extraordinary item arises from the reversal of deferred income taxes relating to United Kingdom inventory tax relief (Stock Appreciation Relief—SAR) previously provided for the fiscal years 1973 through 1978. U.K. legislation passed on July 26, 1979 made that portion of SAR relating to 1973 and 1974 not subject to recapture. SAR for years subsequent to 1974 remains subject to recapture if inventory falls below certain defined levels, but, in management's view, it is probable that this will not occur. Under accounting principles generally accepted in the United States, this item would be treated as an ordinary recovery of income taxes. (See Note 14(h).)

14. Other Information

(a) Funds from (used in) Operations

	(Thousands of U.S. Dollars) **1979**	1978
Continuing Operations—		
Loss from operations	**$(35,437)**	$(167,478)
Items not affecting working capital:		
Depreciation and amortization	**81,804**	73,568
Exchange adjustments on long-term debt	**(3,773)**	25,000
Provision for reorganization expense not requiring a current outlay (receipt) of working capital	**(12,535)**	17,111
Equity in earnings of finance subsidiaries in excess of dividends received	**(16,514)**	(14,776)
Decrease in deferred income taxes	**(19,132)**	(12,234)
Equity in earnings of Associate Companies in excess of dividends received	**(4,634)**	(2,769)
Profit on disposal of fixed assets	**(2,829)**	(1,302)
Minority interest	**1,433**	39
Funds used in continuing operations	**(11,617)**	(82,841)
Discontinued Operations—		
Loss from operations	**(23,018)**	(94,917)
Items not affecting working capital:		
Depreciation and amortization	**5,795**	3,864
Equity in earnings of finance subsidiaries	**(117)**	(1,430)
Profit on disposal of fixed assets	**(1,116)**	
Minority interest	**109**	(855)
Funds used in discontinued operations	**(18,347)**	(93,338)
Funds used in Operations	**$(29,964)**	$(176,179)

(b) Quarterly condensed unaudited income statements for 1979 and 1978 are presented below. These condensed statements are revised from those previously reported to give retroactive effect to the change in accounting described in Note 2 and to present losses from Discontinued Operations separately.

(Millions of U. S. Dollars)

	1979 Quarter 1	2	3	4	1978 Quarter 1	2	3	4
Net Sales	**$ 567.7**	**$ 743.0**	**$ 787.7**	**$ 874.6**	$ 503.8	$ 723.1	$ 651.1	$ 753.0
Costs and Expenses	**546.6**	**734.0**	**800.8**	**859.5**	520.2	698.4	696.0	813.3
Profit (Loss) before Items Shown Below	**21.1**	**9.0**	**(13.1)**	**15.1**	(16.4)	24.7	(44.9)	(60.3)
Provision for Reorganization Expense			**(23.7)**	**(71.3)**		(21.1)		(51.5)
Income tax (expense) recovery	**(2.7)**	**(3.0)**	**6.2**	**5.7**	(20.1)	(9.6)	6.8	5.4
Equity in net income of:								
Finance subsidiaries	**2.3**	**5.4**	**7.4**	**1.5**	4.8	2.1	3.7	4.3
Associate Companies	**1.0**	**1.5**	**1.5**	**0.6**	(1.2)	2.4	3.6	(0.2)
Profit (Loss) from Continuing Operations	**21.7**	**12.9**	**(21.7)**	**(48.4)**	(32.9)	(1.5)	(30.8)	(102.3)
Profit (Loss) from Discontinued Operations	**1.8**	**(2.1)**	**(3.9)**	**(18.8)**	(9.5)	(4.4)	(57.1)	(23.9)
Profit (Loss) before Extraordinary Item	**23.5**	**10.8**	**(25.6)**	**(67.2)**	(42.4)	(5.9)	(87.9)	(126.2)
Extraordinary Item			**95.4**					
Net Income (Loss)	**$ 23.5**	**$ 10.8**	**$ 69.8**	**$ (67.2)**	$ (42.4)	$ (5.9)	$ (87.9)	$(126.2)
Income (Loss) per Common Share (in U.S. dollars after cumulative dividends on preferred shares)								
Profit (loss) from continuing operations	**$1.07**	**$0.58**	**$(1.30)**	**$(2.73)**	$(1.93)	$(0.20)	$(1.81)	$(5.70)
Profit (loss) before extraordinary item	**$1.17**	**$0.47**	**$(1.51)**	**$(3.78)**	$(2.45)	$(0.44)	$(4.94)	$(7.01)
Net Income (Loss)	**$1.17**	**$0.47**	**$ 3.72**	**$(3.78)**	$(2.45)	$(0.44)	$(4.94)	$(7.01)

If existing long-term convertible notes had been converted to common shares, net income per common share would be $3.32 for the third quarter of 1979. There is no dilution in respect of any other quarters in 1979 or 1978, or for 1979 or 1978 as a whole.

Common share prices on the Toronto Stock Exchange by quarter for 1979 and 1978 are as follows (in Cdn. dollars):

High	**$12¼**	**$14¾**	**$15½**	**$15⅛**	$20¼	$15¼	$14⅜	$14
Low	**$ 9½**	**$10¾**	**$12¾**	**$10⅛**	$14⅞	$ 9½	$11¼	$11¼

(c) The SEC in Accounting Series Release 190 requires that larger industrial companies disclose selected replacement cost information in their annual 10-K statement (a copy of which is available upon request, see inside front cover) filed with the Commission. The Company's 10-K Report contains specific information with respect to replacement cost of inventories and productive capacity (generally buildings, machinery and equipment) and a discussion of the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year. Although the Company is concerned about the effect of world-wide inflation on its statements, it believes the information required by the SEC is of limited, if any, value because of the subjective judgments required in its preparation. This material is unaudited.

(d) In accordance with generally accepted accounting principles, the Company's Series A and B Preferred Shares are included as part of "Shareholders' Equity" in the Consolidated Balance Sheets. In July, 1979, the SEC in Accounting Series Release 268 amended its rules regulating the financial statement disclosure of certain redeemable preferred shares for financial information included in SEC filings. Under these amendments, a general heading "Shareholders' Equity" may not be used and such redeemable preferred shares may not be included in a combined total for equity securities. In addition, the terms and dates of redemption of such shares must be presented in a separate note entitled "Redeemable Preferred Shares". Because of the purchase obligation described in Note 8, the Series A and B Preferred Shares are considered by the SEC to be redeemable preferred shares under ASR 268 and accordingly financial information included in SEC submissions made subsequent to July, 1979 will be prepared in accordance with the above-noted requirements.

(e) Interest income of $40,280,000 in 1979 and $42,591,000 in 1978 has been deducted from other interest expense in the Consolidated Statements of Income.

(f) Other assets and deferred charges include housing loans of $703,000 to officers at October 31, 1979 ($233,000 at October 31, 1978).

(g) Aggregate remuneration to persons who served as Directors and Officers of Massey-Ferguson Limited at any time during the year was as follows:

Remuneration paid by:	20 Directors	25 Officers
	(3 Officers were also Directors)	
Massey-Ferguson Limited (holding company)	$102,000	$1,041,000
Subsidiary companies—principally Massey-Ferguson Inc. (U.S.A.)	8,000	924,000
	$110,000	$1,965,000

(h) The change in method of accounting for sales to dealers in North America and the extraordinary item, referred to in Notes 2 and 13 respectively, would receive different treatment if accounting principles generally accepted in the United States had been followed. U.S. principles require the cumulative effect of the change in method of accounting on prior years' income to be reflected as a separate adjustment in the current year's income statement, rather than as an adjustment to the opening balance of retained earnings, and the extraordinary item would be treated as an ordinary recovery of income taxes. U.S. accounting principles also require disclosure, on a proforma basis, of the 1978 consolidated income statement as restated on the new basis of accounting. These would be the same figures as those shown in the accompanying Consolidated Statement of Income for 1978. The result of this U.S. treatment would be as follows:

	(Thousands of U.S. Dollars)	
	1979	1978 *(as previously reported)*
Profit (loss) from Continuing Operations	**$59,916**	$(161,870)
Loss from Discontinued Operations	**(23,018)**	(94,839)
Profit (loss) before cumulative effect of change in accounting principle ($1.58 per share in 1979 and ($14.53) per share in 1978)	**36,898**	(256,709)
Cumulative effect on prior years' (to October 31, 1978) of change in accounting for sales to North American dealers ($0.04 per share)	**801**	
Net income (loss) for the year ($1.62 per share in 1979 and ($14.53) in 1978)	**$37,699**	$(256,709)

15. Subsequent Events

(a) By agreement dated November 27, 1979, the Company has agreed to sell, subject to certain conditions, its Hanomag construction machinery business, effective February 1, 1980. As described in Note 12, a provision for losses estimated to be incurred on this disposal has been reflected in the 1979 accounts as part of "Discontinued Operations".

(b) During 1978, as part of the reorganization programs described in Note 11, it was anticipated that the production of harvesters would be consolidated at Marquette, France and that the production of balers would be transferred to Kilmarnock, Scotland. Accordingly provision was made in the 1978 accounts for the estimated costs related to this decision.

As a result of additional studies performed in 1979, it was concluded that the only viable solution would be to close the Kilmarnock plant and in November, 1979, the Company announced its intention to cease operations in Kilmarnock and to concentrate combine manufacturing in Marquette. Additional relocation, redundancy and other closure costs have been provided as part of "Provision for Reorganization Expense", described in Note 11.

(c) The Company, several of its directors and its auditors were named defendants in a class action filed in February, 1979 in a United States District Court. The complaint, which sought damages in an unspecified amount, alleged that 1976 and 1977 reports and releases of the Company contained misrepresentations and omissions in violation of certain provisions of United States securities laws. On December 26, 1979, the Court dismissed the complaint for failing to state sufficient facts to sustain a cause of action. The dismissal was without prejudice to the plaintiff's filing an amended complaint within 30 days thereafter.

(d) (Unaudited) On January 10, 1980, the Company agreed in principle to sell its interest in its Spanish associate, Motor Iberica S.A., to the Nissan Motor Company of Japan.

FINANCE SUBSIDIARIES

Combined Statements of Income and Retained Earnings
Years ended October 31, 1979 and 1978

	(Thousands of U.S. Dollars) 1979	1978
Revenue:		
Interest and finance fees (including income from affiliates of $66,349 in 1979 and $53,112 in 1978)	$ 123,937	$ 102,790
Discounts	5,818	6,114
	129,755	108,904
Expenses:		
Administrative expenses	13,651	13,995
Interest on long-term debt	30,886	25,958
Interest on short-term debt (including $740 paid to affiliates in 1979 and $1,945 in 1978)	57,701	42,277
Provision for doubtful accounts (recovery)	(298)	601
Exchange adjustments	1,336	(2,747)
	103,276	80,084
Income before Income Taxes	26,479	28,820
Income taxes:		
Current	10,233	13,217
Deferred	(469)	(684)
	9,764	12,533
Net Income for the Year (including $117 attributable to Discontinued Operations in 1979 and $1,430 in 1978)	16,715	16,287
Retained Earnings at Beginning of Year	70,854	54,648
	87,569	70,935
Deduct dividends on preferred shares	84	81
Retained Earnings at End of Year	$ 87,485	$ 70,854

Combined Statements of Assets and Liabilities
October 31, 1979 and 1978

	1979	1978
Assets:		
Cash	$ 19,975	$ 30,818
Receivables *(Note 2)*	1,009,020	1,010,742
Prepaid expenses	5,024	2,952
	$1,034,019	$1,044,512
Liabilities:		
Short-term notes payable—Banks	$ 503,735	$ 493,766
—Others	6,138	52,417
Due to affiliates	57,634	22,535
Long-term advances from affiliates	2,114	8,072
Dealer deposits	12,627	14,209
Accrued charges	15,612	14,055
Income taxes payable	1,140	1,973
Deferred income taxes	6,603	7,357
Long-term debt *(Note 3)*	282,677	306,014
	888,280	920,398
Equity of Massey-Ferguson Limited:		
Share capital	58,254	53,260
Retained earnings *(Note 3 (c))*	87,485	70,854
	145,739	124,114
	$1,034,019	$1,044,512

Combined Statements of Changes in Financial Position
Years ended October 31, 1979 and 1978

	1979	1978
Source of Funds:		
Net Income	$ 16,715	$ 16,287
Collection on liquidation of receivables	2,044,472	1,891,125
Increase in due to affiliates	35,099	1,083
Decrease (increase) in cash	10,843	(25,084)
Proceeds from common share issues	4,994	1,457
Increase in unearned interest and discount, and allowance for doubtful accounts	4,896	218
Increase in accrued charges	1,557	5,563
Proceeds from long-term debt issues		135,322
Total funds provided	$2,118,576	$2,025,971
Use of Funds:		
Cost of receivables acquired	$2,047,646	$1,968,970
Decrease (increase) in short term notes payable	36,310	(12,771)
Reduction in long-term debt	23,337	79,841
Decrease (increase) in long-term advances from affiliates	5,958	(8,072)
Decrease (increase) in dealer deposits	1,582	(2,124)
Decrease in other accounts (net)	3,743	127
Total funds used	$2,118,576	$2,025,971

(See accompanying Notes to Combined Finance Subsidiaries' Statements)

NOTES TO COMBINED FINANCE SUBSIDIARIES' STATEMENTS

Years ended October 31, 1979 and 1978 *(in U.S. Dollars)*

1. Summary of Significant Accounting Policies

The combined finance subsidiaries' financial statements have been prepared by management following accounting policies that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Presentation

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited and its subsidiaries Massey-Ferguson Finance (Alberta) Limited and Massey-Ferguson (Quebec) Limitée; Massey-Ferguson Credit Corporation (U.S.A.) and its finance subsidiary; Massey-Ferguson-Perkins Finance Company Limited (U.K.); Perkins Engines Finance Company Limited (U.K.); Massey-Ferguson Finance AG (Switzerland); MF Finanziaria S.p.A. (Italy); Massey-Ferguson Finance (Australia) Limited and MF Factoring GmbH (Germany).

(b) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: assets and liabilities at exchange rates prevailing at the end of the year; share capital at rates prevailing at the date of issue; revenue and expenses at average exchange rates during the year. Translation gains or losses are included in income.

(c) Finance Income

Interest and discounts are generally taken into income in declining amounts over the life of the contract on the basis of effective yield.

(d) Income Taxes

The companies follow the deferred method of tax allocation in accounting for income taxes.

(e) Classification of Assets and Liabilities

In accordance with industry practice, the assets and liabilities have not been classified as current or non-current.

2. Receivables

Receivables are shown net of the following provisions:

	1979	1978
Allowance for doubtful accounts	$ 6,307,000	$ 7,441,000
Unearned interest and discount	133,501,000	122,028,000
	$139,808,000	$129,469,000

At October 31, 1979 approximately 38 per cent (43 per cent at October 31, 1978) of the receivables, before provisions, mature beyond one year, as follows:

	1979	1978
13—24 months	$203,371,000	$204,911,000
25—36 months	133,152,000	132,977,000
37—48 months	68,848,000	67,855,000
over 48 months	28,778,000	25,773,000
	$434,149,000	$431,516,000

Receivables of the Canadian and U.S. finance subsidiaries include interest bearing wholesale receivables from North American dealers of $1,078,000 in 1979 and $2,656,000 in 1978.

3. Long-Term Debt

(a) Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31.

	1979	1978
	(Thousands of U.S. dollars)	
Massey-Ferguson Finance (Australia) Limited:		
12% Senior Notes maturing 1979		$ 4,752
Massey-Ferguson Finance Company of Canada Limited:		
9¾% Senior Debentures maturing 1980	$ 2,957	3,508
Senior Notes maturing 1982-84 bearing interest at 1¼% above prime rate	21,100	21,450
Senior Note maturing 1980-82 repayable in U.S. dollars bearing interest at 1⅛% above Eurodollar interbank rate	10,000	10,000
8½% Subordinated Notes maturing 1980-84	2,532	3,089
11⅛% Subordinated Notes maturing 1980-91	5,453	6,005
Subordinated Note maturing 1980-82 repayable in U.S. dollars bearing interest at 1⅝% above Eurodollar interbank rate	5,000	5,000
MF Finanziaria S.p.A (Italy):		
14.37% Senior Note maturing 1980-82	6,010	6,310
Massey-Ferguson Credit Corporation (U.S.A.):		
5¼% Senior Notes maturing 1980-86	17,500	20,000
7⅝% Senior Notes maturing 1980-88	12,180	13,440
8¾% Senior Notes maturing 1983-87	35,000	35,000
9¾% Senior Notes maturing 1980-91	32,305	35,000
Senior Notes maturing 1980 bearing interest at 1⅝% above Eurodollar interbank rate	6,250	12,500
Senior Notes maturing 1980-83 bearing interest at 1⅛% above Eurodollar interbank rate	30,000	30,000
Senior Notes maturing 1981-83 bearing interest at 1⅛% above Eurodollar interbank rate	30,000	30,000
8% Senior Debentures maturing 1980-93	18,800	20,000
5½% Subordinated Notes maturing 1980	700	1,600
7⅞% Subordinated Notes maturing 1980-88	3,045	3,360
9¼% Subordinated Notes maturing 1982-92	10,000	10,000
10% Subordinated Notes maturing 1980-91	13,845	15,000
Subordinated Notes maturing 1981-83 bearing interest at 1⅛% above the Eurodollar interbank rate	20,000	20,000
	$282,677	$306,014
Senior	$222,102	$241,960
Subordinated	60,575	64,054
	$282,677	$306,014

(b) Instalments due and maturities during the next five years are as follows: 1980—$30,195,000; 1981—$36,490,000; 1982—$54,220,000; 1983—$51,816,000; 1984—$26,426,000.

(c) In connection with the agreements relating to the long-term debt, $37,043,000 of the finance subsidiaries' retained earnings are restricted as to dividends.

AUDITORS' REPORT

To the Shareholders of Massey-Ferguson Limited:

We have examined the consolidated balance sheets of Massey-Ferguson Limited as at October 31, 1979 and 1978, and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. We have also examined the combined statements of assets and liabilities of the Finance Subsidiaries of Massey-Ferguson Limited as at October 31, 1979 and 1978, and the combined statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Notes 11 and 12 refer to the fact that provisions have been made for the costs of various programs that have been undertaken to cope with problems adversely affecting the Company's operations and financial position. However, because of the complexities of certain of the programs and the period of time required to complete them, it is not possible to make a precise determination of the eventual total cost, which may be more or less than the amounts provided.

In our opinion, (a) subject to the effects, if any, on the consolidated financial statements of the ultimate determination of the actual costs of the programs referred to in the preceding paragraph, the consolidated financial statements present fairly the consolidated financial position of Massey-Ferguson Limited as at October 31, 1979 and 1978 and the results of its consolidated operations and the changes in its consolidated financial position for the years then ended in accordance with accounting principles generally accepted in Canada applied on a consistent basis during the period after restatement of the consolidated financial statements for 1978 to give retroactive effect to the change, with which we concur, in the method of accounting for wholegoods sales to North American dealers as described in Note 2 to the consolidated financial statements, and (b) the combined financial statements present fairly the combined assets and liabilities of the Finance Subsidiaries as at October 31, 1979 and 1978 and the results of their combined operations and the changes in their combined financial position for the years then ended in accordance with accounting principles generally accepted in Canada applied on a consistent basis during the period.

Toronto, Canada,
December 14, 1979.

Clarkson, Gordon & Co.
Chartered Accountants.

SUPPLEMENTARY INFORMATION

Showing Financial Position and Results of Operations had the Finance Subsidiaries been Consolidated.
(See Note 1(a) to Consolidated Financial Statements)

Summarized Statements of Income
Years ended October 31, 1979 and 1978

	(Thousands of U.S. Dollars) 1979	1978 (Restated)
Income:		
Net Sales	**$2,972,966**	$2,631,428
Revenue of finance subsidiaries (excluding inter-company)	**62,834**	50,374
	3,035,800	2,681,802
Costs and Expenses:		
Cost of goods sold, marketing, general, administrative, engineering and product development expenses	**2,796,430**	2,502,541
Interest on long-term debt	**106,593**	104,625
Other interest (net)	**106,888**	82,965
Exchange adjustments	**(23,566)**	69,640
Minority interest	**1,433**	39
Miscellaneous income	**(10,421)**	(8,525)
	2,977,357	2,751,285
Profit (loss) before Items Shown Below	**58,443**	(69,483)
Provision for Reorganization Expense	**(95,000)**	(72,600)
Income taxes	**(3,514)**	(29,991)
Equity in net income of Associate Companies	**4,634**	4,596
Loss from Continuing Operations after Reorganization Expense	**(35,437)**	(167,478)
Loss from Discontinued Operations	**(23,018)**	(94,917)
Loss before Extraordinary Item	**(58,455)**	(262,395)
Extraordinary Item	**95,353**	
Net Income (Loss) for the Year	**$ 36,898**	$ (262,395)

Summarized Balance Sheets
October 31, 1979 and 1978

	1979	1978
Assets		
Current assets:		
Cash	**$ 37,134**	$ 54,256
Receivables	**1,329,356**	1,191,306
Inventories	**1,097,598**	1,083,822
Prepaids	**88,655**	60,303
Total Current Assets	**2,552,743**	2,389,687
Retail receivables due beyond one year	**352,674**	358,624
Investments	**69,251**	81,124
Fixed assets (net)	**568,653**	602,242
Other assets and deferred charges	**23,977**	29,301
Total Assets	**$3,567,298**	$3,460,978
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank borrowings and short-term notes payable	**$1,021,596**	$ 908,453
Current portion of long-term debt	**89,493**	138,877
Accounts payable and accrued charges	**916,299**	763,964
Income, sales and other taxes payable	**19,726**	53,953
Advance payments from customers and dealer deposits	**25,161**	30,310
Total Current Liabilities	**2,072,275**	1,895,557
Deferred income taxes	**20,437**	71,725
Long-term debt	**877,323**	933,946
Minority interest	**19,043**	18,428
Total Liabilities	**2,989,078**	2,919,656
Shareholders' Equity:		
Share capital		
Preferred shares	**95,790**	95,790
Common shares	**176,888**	176,888
Retained earnings	**305,542**	268,644
	578,220	541,322
Total Liabilities and Shareholders' Equity	**$3,567,298**	$3,460,978

SALES STATISTICS

(Millions of U.S. Dollars)

		1979* % of Total	1979* Amount $	1978* $	1977 $	1976 $	1975 $	1974 $	1973 $	1972 $	1971 $	1970 $
Net Sales By Markets	**North America**											
	Canada	7.3	217.8	180.0	196.8	222.6	193.6	143.2	102.5	77.8	69.1	65.2
	United States	28.2	839.1	635.1	699.3	634.4	593.9	476.8	410.5	336.4	293.6	247.8
	Total	35.5	1,056.9	815.1	896.1	857.0	787.5	620.0	513.0	414.2	362.7	313.0
	Europe											
	United Kingdom	11.4	339.2	321.0	274.4	225.4	211.6	157.5	146.8	128.9	116.2	114.3
	France	6.7	199.8	182.9	189.3	166.7	171.3	142.4	137.4	119.2	95.6	88.5
	West Germany	6.0	178.9	188.4	220.2	183.1	157.5	88.0	102.6	62.4	56.4	57.8
	Italy	5.2	155.1	122.0	136.2	119.1	89.5	59.3	54.5	45.7	39.4	41.8
	Scandinavia	2.8	84.5	104.0	102.7	90.4	86.9	56.1	45.6	42.3	41.3	39.7
	Benelux	0.9	25.8	32.8	44.2	39.8	33.3	19.0	15.8	10.5	9.3	11.6
	Austria	0.5	13.8	13.2	21.9	15.9	14.4	10.3	10.9	8.3	10.1	8.2
	Spain	0.4	10.8	12.0	21.6	19.3	18.6	16.7	10.2	8.3	4.3	8.1
	Other	1.5	44.3	46.1	42.9	30.5	30.4	17.5	16.1	14.3	13.9	14.0
	Total	35.4	1,052.2	1,022.4	1,053.4	890.2	813.5	566.8	539.9	439.9	386.5	384.0
	Latin America											
	Brazil	10.7	317.9	249.6	277.1	403.6	363.1	213.3	164.5	121.5	76.4	58.8
	Mexico	1.8	53.8	42.6	20.9	37.4	35.0	19.0	11.3	11.5	11.5	11.7
	Argentina	1.5	43.1	32.8	109.2	72.6	51.7	51.1	29.2	15.5	10.1	9.6
	Other	1.4	42.6	39.7	48.3	35.8	51.8	32.7	23.5	15.9	21.8	14.7
	Total	15.4	457.4	364.7	455.5	549.4	501.6	316.1	228.5	164.4	119.8	94.8
	Africa											
	South Africa	2.2	64.1	73.9	76.5	73.0	99.2	70.2	45.5	43.6	44.7	38.0
	Libya	0.8	24.2	12.5	14.6	14.8	28.9	19.0	11.4	7.7	4.2	0.6
	Sudan	0.1	4.3	1.9	4.2	10.5	3.5	1.7	0.3	4.8	0.5	2.6
	Other	1.5	44.4	54.6	73.1	51.3	63.9	36.1	26.4	21.5	27.5	27.5
	Total	4.6	137.0	142.9	168.4	149.6	195.5	127.0	83.6	77.6	76.9	68.7
	Asia											
	Japan	1.0	28.6	30.4	18.8	17.2	23.4	12.5	7.7	6.5	7.4	5.4
	Pakistan	0.7	21.7	12.1	21.1	29.2	15.9	5.4	1.4	2.8	1.8	4.0
	Iran	0.3	8.0	30.6	10.1	38.5	15.5	0.8	0.3	0.1	0.2	0.1
	Turkey	0.1	3.5	26.7	51.6	76.4	44.3	24.4	29.0	16.2	8.1	3.9
	Other	3.0	89.2	89.3	65.2	44.6	48.4	25.2	19.1	17.8	23.3	20.1
	Total	5.1	151.0	189.1	166.8	205.9	147.5	68.3	57.5	43.4	40.8	33.5
	Australasia	4.0	118.5	96.8	121.3	121.5	108.8	92.4	74.3	50.5	42.6	43.9
	Total	100.0	2,973.0	2,631.0	2,861.5	2,773.6	2,554.4	1,790.6	1,496.8	1,190.0	1,029.3	937.9
Net Sales By Quarters	First	19.1	567.7	503.8	544.2	536.1	467.6	327.2	249.6	199.3	197.6	172.8
	Second	25.0	743.0	723.1	706.5	775.7	652.2	450.3	382.0	299.6	256.4	249.7
	Third	26.5	787.7	651.1	781.7	705.9	673.6	481.7	382.8	328.5	249.4	235.9
	Fourth	29.4	874.6	753.0	829.1	755.9	761.0	531.4	482.4	362.6	325.9	279.5
	Total	100.0	2,973.0	2,631.0	2,861.5	2,773.6	2,554.4	1,790.6	1,496.8	1,190.0	1,029.3	937.9
Net Sales By Products	**Farm & Industrial Machinery:**											
	Tractors	42.3	1,256.6	1,107.8	1,201.5	1,186.0	1,038.2	673.3	577.0	462.1	396.0	331.0
	Grain Harvesting	15.0	445.1	341.7	333.3	343.7	353.5	246.3	186.0	149.5	128.0	99.4
	Hay Harvesting	1.6	46.1	49.8	60.3	55.1	51.9	42.8	41.1	26.3	29.3	26.1
	Industrial Machines	6.6	195.7	170.8	153.1	144.6	125.0	124.5	118.9	109.4	84.7	89.5
	Other Products	5.9	176.3	209.3	226.9	234.0	226.6	191.9	153.1	112.3	97.0	99.6
	Parts	11.6	349.2	305.6	275.4	267.2	267.9	215.6	175.9	135.9	116.4	102.1
	Total	83.0	2,469.0	2,185.0	2,250.5	2,230.6	2,063.1	1,494.4	1,252.0	995.5	851.4	747.7
	Engines											
	Engines	21.9	650.9	560.9	512.9	486.0	402.1	263.0	220.8	197.7	166.1	179.4
	Deduct MF	(7.5)	(223.6)	(182.7)	(182.4)	(200.4)	(168.7)	(104.8)	(87.1)	(80.0)	(59.1)	(57.8)
	Parts	2.6	76.7	67.8	56.4	54.1	61.4	46.6	39.2	32.6	28.1	23.8
	Total (Net)	17.0	504.0	446.0	386.9	339.7	294.8	204.8	172.9	150.3	135.1	145.4
	Construction Machinery											
	Machines				184.9	169.9	160.8	79.0	62.9	37.6	36.9	38.6
	Parts				39.2	33.4	35.7	12.4	9.0	6.6	5.9	6.2
	Total				224.1	203.3	196.5	91.4	71.9	44.2	42.8	44.8
	Total	100.0	2,973.0	2,631.0	2,861.5	2,773.6	2,554.4	1,790.6	1,496.8	1,190.0	1,029.3	937.9

The above table reflects the change to wholesale accounting for sales to North American dealers described in Note 2 of the consolidated financial statements.

*Excluding Construction Machinery.

FINANCIAL STATISTICS

(Millions of U.S. Dollars except as indicated)			1979	1978*	1977*	1976*	1975*
Summary of Operations	Net sales	$	**2,973**	2,631	2,861	2,774	2,554
	Gross profit	$	**573**	512	603	533	511
	Net expenses (excluding interest)	$	**377**	453	417	277	272
	Interest expense (net)	$	**164**	155	151	101	99
	Provision for Reorganization Expense	$	**95**	73			
	Income tax recovery (expense)	$	**6**	(17)	(17)	(57)	(49)
	Finance subsidiaries and Associate Cos.	$	**21**	19	14	10	9
	(Loss) Profit from Continuing Operations	$	**(36)**	(167)	32	108	100
	Loss from Discontinued Operations	$	**(23)**	(95)			
	(Loss) Profit before Extraordinary Item	$	**(59)**	(262)	32	108	100
	Extraordinary Item	$	**95**				
	Net income (loss)	$	**37**	(262)	32	108	100
	Operating profit (loss)**	$	**30**	(133)	77	126	111
	Dividends—Common	$		4	19	18	13
	—Preferred	$		2	10	7	2
	Income (loss) retained	$	**37**	(268)	3	83	85
Financial Condition	Working capital	$	**426**	431	703	739	643
	Additions to fixed assets	$	**77**	99	147	175	170
	Depreciation and amortization	$	**88**	77	69	54	45
	Total assets	$	**2,745**	2,573	2,620	2,323	2,015
	Current ratio		**1.3**	1.3	1.6	1.8	1.8
	Asset turnover ratio		**1.2**	1.1	1.1	1.2	1.3
	Debt/equity ratio***		**2.1**	2.1	1.2	0.9	1.0
Liabilities and Shareholders' Equity	Current	$	**1,510**	1,297	1,094	894	831
	Other	$	**658**	735	712	619	515
	Shareholders' equity***	$	**578**	541	813	811	669
	Return on closing equity***	%	**6.4**	(48.5)	3.9	13.3	14.9
As a Per Cent of Sales	Cost of goods sold, at average exchange rates	%	**80.1**	81.1	78.0	76.8	77.6
	Effect of foreign currency exchange rate changes	%	**0.6**	(0.6)	0.9	4.0	2.4
	Gross margin	%	**19.3**	19.5	21.1	19.2	20.0
	Marketing, general and administrative	%	**11.8**	12.6	11.9	11.5	10.6
	Engineering and product development	%	**2.0**	2.2	2.4	2.2	2.2
	Profit (Loss) before Items Shown Below	%	**1.1**	(3.7)	1.2	5.6	5.5
	Provision for Reorganization Expense	%	**3.2**	2.8			
	Net Income (Loss)	%	**1.2**	(10.0)	1.1	3.9	3.9
	Operating profit (loss)**	%	**1.0**	(5.0)	2.7	4.6	4.4
Per Common Share ($U.S.)	Net sales	$	**162.90**	144.16	156.76	152.00	139.94
	Income (Loss) (after cumulative dividends on preferred shares)	$	**1.58**	(14.84)	1.21	5.53	5.37
	Income (Loss) retained	$	**1.58**	(14.68)	0.16	4.55	4.66
	Equity	$	**25.66**	24.08	39.06	38.92	34.53
	Toronto Stock Exchange quotes, High	$	**15½**	20¼	24⅛	32	18⅛
	($Canadian) Low	$	**9½**	9½	16⅛	16¾	12⅛
	Dividends declared ($Canadian)	$		0.25	1.08	1.00	0.70
	Dividends paid ($Canadian)	$		0.25	1.08	1.00	0.90
Shareholders/Employees	Shareholders—Common shares		**29,926**	31,353	30,619	31,039	35,844
	—Preferred shares		**10,613**	11,370	10,208	10,620	5,046
	Employees		**56,233**	57,983	67,151	68,200	64,572
	Common shares outstanding (thousands)		**18,250**	18,250	18,250	18,250	18,250
	Preferred shares outstanding (thousands)		**3,825**	3,825	3,999	3,999	1,600

*Reflects the change in accounting described in Note 2 of the consolidated financial statements. Results for 1979 and 1978 include the construction machinery business as discontinued operations. It is not practicable to segregate construction machinery operations for years prior to 1978.

**Operating profit (loss) is defined on page 5 of this Report.

***Accounting Series Release 268 (see Note 14(d)) of the SEC requires that certain preferred shares used in the calculation of equity ratios be considered as debt rather than equity. Under this assumption, the equity ratios presented above would be as follows: debt/equity, 1979—2.7, 1978—2.8, 1977—1.50, 1976—1.1, 1975—1.1, return on closing equity, 1979—7.6%, 1978—(58.9)%, 1977—4.5%, 1976—15.2%, 1975—15.9%.

OPERATING COMPANIES—FACILITIES AND PRODUCTS

FARM AND INDUSTRIAL MACHINERY

Argentina
Massey-Ferguson Argentina S.A.
Rosario Plant (270,000 sq. ft.) – agricultural tractors.

Australia
Massey-Ferguson (Australia) Limited
Bundaberg Plant (207,000 sq. ft.) – sugar cane harvesters, loaders, backhoes.
Sunshine (Melbourne) Plant (1,373,000 sq. ft.) – combines, implements.

Brazil
Massey-Ferguson do Brasil S.A.
Canoas Plant (581,500 sq. ft.) – combines, implements, backhoes.
Sao Paulo Plant (389,000 sq. ft.) – agricultural and industrial tractors.

Canada
Massey-Ferguson Industries Limited
Brantford Locations
–*Combine Plant (815,000 sq. ft.)* – combines, combine cabs.
–*Foundry (255,000 sq. ft.)* – grey iron castings.
–*Implement Plant (804,000 sq. ft.)* – plows, mowers, rakes and other implements, combine and tractor components.
–*Steel Processing Plant (347,000 sq. ft.)* – steel stampings.
Toronto Plant (1,835,000 sq. ft.) – balers, corn heads, tractor cabs, combine and tractor components.

Kanmet Ltd.
Cambridge Foundry (61,000 sq. ft.) – grey iron and nodular castings.

France
Massey-Ferguson S.A.
Beauvais Plant (932,000 sq. ft.) – agricultural tractors, tractor components.
Marquette Plant (1,155,000 sq. ft.) – combines, balers, tractor cabs, components, grey iron castings.

Italy
Massey-Ferguson S.p.A.
Aprilia Plant (600,000 sq. ft.) – agricultural and industrial crawler tractors, agricultural and industrial machinery components.
Ravenna Plant (110,000 sq. ft.) – agricultural and industrial machinery components.
Como Plant (115,000 sq. ft.) – agricultural tractor components.
Fabbrico Plant (380,000 sq. ft.) – agricultural wheel tractors.

Rhodesia
Rhoplow Limited
Bulawayo Plant (56,000 sq. ft.) – animal draft implements, hoes, peanut shellers.

South Africa
*Massey-Ferguson (South Africa) Limited

Safim Manufacturing Limited
Vereeniging Plant (658,000 sq. ft.) – implements, tractor accessories, attachments, industrial loaders, transport systems.

Slattery Manufacturing (Proprietary) Limited
Potgietersrus Plant (216,000 sq. ft.) – harvesting machinery, implements, trailers.

United Kingdom
Massey-Ferguson (United Kingdom) Limited
Baginton Plant (312,000 sq. ft.) – tractor components.
Coventry Plant (1,517,700 sq. ft.) – agricultural and industrial tractors, axles, gearboxes, other components.
Knowsley Plant (304,000 sq. ft.) – tractor-backhoe-loaders.
Manchester Plant (511,000 sq. ft.) – tractor loaders, tractor-backhoe-loaders, 4-wheel-drive agricultural tractors, tractor components.

United States
Massey-Ferguson Inc.
Des Moines Plant (570,000 sq. ft.) – 4-wheel-drive agricultural tractors, tractor-backhoe-loaders.

Detroit Locations
–*Southfield Plant (820,000 sq. ft.)* – agricultural and industrial tractors, tractor-backhoe-loaders.

–*Van Born Plant (497,000 sq. ft.)* – tractor transmission and axle assemblies, hydraulic and power steering pumps, tractor components.

–*West Chicago Street Plant (314,000 sq. ft.)* – tractor and combine transmission and axle components.

Badger Northland Inc.
Kaukauna Plant (267,000 sq. ft.) – Badger Northland forage and feeding equipment, solid and liquid manure disposal systems, manure spreaders.

West Germany
Massey-Ferguson GmbH
Eschwege Plant (587,000 sq. ft.) – roller chain, gearboxes, gears, hydraulic cylinders, combine axles, grey iron castings, other components.

Gebr. Eicher GmbH
Landau Plant (240,000 sq. ft.) – tractors, implements.

ENGINES

Australia
Perkins Engines Australia Pty. Ltd.
Dandenong Plant (28,400 sq. ft.) – industrial diesel engine assembly, engine reconditioning.

Brazil
Motores Perkins S.A.
Sao Bernardo Plant (263,000 sq. ft.) – diesel engines.
Sao Paulo (Alvarengas) Plant (132,000 sq. ft.) – diesel engines.

Progresso Metalfrit S.A.
Sao Paulo Foundry (135,000 sq. ft.) – grey iron castings.

France
Perkins Industries S.A.
Genainville Plant (30,000 sq. ft.) – agricultural diesel engine and gasoline engine assembly.

United Kingdom
Perkins Engines Group Limited
Peterborough Locations
–*Eastfield Plant (1,832,000 sq. ft.)* – diesel and gasoline engines, engine reconditioning.
–*Fletton Components Plant (82,000 sq. ft.) — engine components.*
–*Fletton V8 Plant (198,000 sq. ft.)* – diesel engines.
–*Walton Plant (154,000 sq. ft.)* – engine components.

United States
Perkins Engines Inc.
Van Born Plant (100,000 sq. ft.) – diesel engine assembly.

CONSTRUCTION MACHINERY

West Germany
*Massey-Ferguson-Hanomag Inc. & Co.
Hanover Plant (*2,900,000 sq. ft.*) – wheel loaders and dozers, crawler tractors, compactors, tractor components.

ASSOCIATE COMPANIES AND PER CENT OWNED

Argentina
Perkins Argentina S.A.I.C. 30%
Cordoba Plant (*262,000 sq. ft.*) – diesel engines.

Brazil
Piratininga, Implementos Agricolas Ltda. 40%
Butia Plant (*65,000 sq. ft.*) – farm implements.

India
Tractors and Farm Equipment Limited 49%
Madras Plant (*193,000 sq. ft.*) – tractors, implements.

Italy
Simmel S.p.A. 33⅓%
Castelfranco Veneto Plant (*380,000 sq. ft.*) – crawler tractor components.

Libya
Libyan Tractor Company 33⅓%
Ta Joura (*Tripoli*) *Plant* (*118,400 sq. ft.*) – tractors.

Malawi
Agrimal (Malawi) Limited 20%
Blantyre Plant (*12,000 sq. ft.*) – hoes, animal draft equipment.

Mexico
Motores Perkins S.A. 24%
Toluca Plant (*153,000 sq. ft.*) – diesel engines.

Morocco
Compagnie Maghrebine de Materiels Agricoles et Industriels S.A. 24%
Casablanca Plant (*54,000 sq. ft.*) – tractors.

Peru
Tractores Andinos S.A. 49%
Trujillo Plant (*70,000 sq. ft.*) – tractors.

Motores Diesel Andinos S.A. 24%
Trujillo Plant (*109,000 sq. ft.*) – diesel engines.

Spain
*Motor Iberica S.A. 37%

Barcelona Locations

–*Lopez Varela Plant* (*406,000 sq. ft.*) – tractor components.

–*Zona Franca Plant* (*779,000 sq. ft.*) – trucks, tractors.

–*Montcada Plant* (*196,000 sq. ft.*) – sheet-metal components.

Madrid Locations

–*Avda. Aragon Plant* (*109,000 sq. ft.*) – diesel engines, components.

–*Cuatro Vientos Plant* (*726,000 sq. ft.*) – diesel engines, trucks.

Other Locations

–*Corrales de Buelna Plant* (*207,000 sq. ft.*) – tractors, engine components.
–*Corrales de Buelna Foundry* (*528,000 sq. ft.*) – castings.
–*Noain Plant* (*187,000 sq. ft.*) – combines, balers, cornheads.
–*Ejea Plant* (*97,000 sq. ft.*) – farm implements.
–*Tauste Plant* (*16,000 sq. ft.*) – farm implements.

OTHER MASSEY-FERGUSON AND PERKINS COMPANIES

Canada
Perkins Engines Canada Limited
Rexdale

France
Moteurs Perkins S.A.
Saint-Denis

Italy
Motori Perkins S.p.A.
Como

South Africa
Perkins Engines (Proprietary) Limited
Johannesburg

United Kingdom
Massey-Ferguson (Export) Limited
Coventry

Massey-Ferguson-Perkins Limited
London

Perkins Engines Limited
Peterborough

West Germany
Perkins Motoren GmbH
Kleinostheim

LICENSEE LOCATIONS

Farm and Industrial Machinery: Greece, India, Iran, Japan, Kenya, Malaysia, Mexico, Pakistan, Poland, Portugal, Thailand, Turkey, Uruguay

Engines: Greece, India, Iran, Pakistan, Poland, Republic of Korea, Turkey, Uruguay, Yugoslavia

**All or part subject to sale.*

DIRECTORS' AFFILIATIONS

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Chairman of the Board of Directors and Chief Executive Officer
Massey-Ferguson Limited
Vice Chairman and Chairman Executive Committee – Hollinger Argus Limited, Toronto, Canada.
Chairman – Argus Corporation Limited; The Ravelston Corporation Limited.
Vice-Chairman – Labrador Mining and Exploration Company Limited.
President – Western Dominion Investments Limited.
Director – Canadian Imperial Bank of Commerce; Carling O'Keefe Limited; Confederation Life Insurance Company; Dominion Stores Limited; Eaton's of Canada Ltd.; Iron Ore Company of Canada Ltd.; Standard Broadcasting Corporation Limited.

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Massey-Ferguson Limited

The Marquess of Abergavenny
Chancellor of the Most Noble Order of the Garter.
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Executive Vice President—Labrador Mining & Exploration Company Limited.
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Director – Fireman's Fund Insurance Company of Canada Limited; Crown Trust Company; Dominion Stores Limited; General Bakeries Limited; The Ravelston Corporation Limited.

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Vice President & Director—Baton Broadcasting Incorporated; Argus Corporation Limited.
Director – CFQC Broadcasting Limited; Inland Publishing Company; C. F. Haughton Limited; Hollinger Argus Limited; Toronto Dominion Bank.

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Vice President and Member Executive Committee – Argus Corporation Limited.
Vice President and Director – Dominion and Anglo Investment Corporation Limited.
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President – Matthews & Company, Inc., Toronto, Canada.
Chairman – Dome Mines Ltd.
Director – Canada Permanent Trust Company; Canada Permanent Mortgage Corporation; Dome Petroleum Ltd.

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Dominion Malting Limited.
Vice President and Director – Argus Corporation Limited.
Director – Hollinger Argus Limited; British Columbia Development Corporation; Crown Trust Company; Doman Industries Limited; The Ravelston Corporation Limited; Western Dominion Investments Limited.

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President – United Grain Growers Limited, Winnipeg, Canada.
Director – The Great-West Life Assurance Company; Canadian Pacific Limited; The Royal Bank of Canada.
Honorary Member – Agricultural Institute of Canada; Manitoba Institute of Agrologists; Canadian Seed Trade Association.

Albert A. Thornbrough
Deputy Chairman of the Board of Directors
Massey-Ferguson Limited
Director – Canadian Imperial Bank of Commerce, Toronto, Canada.

Hon. John N. Turner
Partner – McMillan, Binch, Toronto, Canada.
Director – Canadian Pacific Limited; Crown Life Insurance Company; Canadian Investment Fund, Ltd.; Credit Foncier; MacMillan, Bloedel Limited; Marathon Realty Company Limited; Sandoz (Canada) Ltd.; Wander Ltd.; Bechtel Canada Limited; York University; Canadian Council of Christians and Jews.

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Member – Hamilton Advisory Board, The Royal Trust Company.

Colin W. Webster
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President – Stadacona Investments Canada Ltd.
Director – Canadian Liquid Air Ltd.; St. Lawrence Cement Company; Canadian General Transit Co. Ltd.; Helix Investments Limited.

The Duke of Wellington
Chairman – Stratfield Saye Estates Management Company.
Director – Motor Iberica S.A.; Bodegas Internacional, Spain; Michael Druitt Wines Ltd., United Kingdom.
Council Member – Royal Agricultural Society of England.

TRANSFER AGENTS AND REGISTRARS

COMMON SHARES

Transfer Agents and Registrars

National Trust Company, Limited, Toronto, Montreal, Winnipeg, Calgary, Vancouver

The Canadian Bank of Commerce Trust Company, New York

Canadian Imperial Bank of Commerce, London, England

Stock Exchanges

The common shares of Massey-Ferguson Limited are listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange in the United States and on the London Stock Exchange in England.

These shares have unlisted trading privileges in the United States on the Midwest Stock Exchange in Chicago, the PBW Stock Exchange, the Boston Stock Exchange and the Pacific Coast Stock Exchange. The shares are also traded on the Amsterdam Stock Exchange in the form of Dutch Bearer Certificates.

PREFERRED SHARES

Transfer Agents

Crown Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Canada Permanent Trust Company, Regina

Registrar

Crown Trust Company, Toronto Montreal, Winnipeg, Calgary, Vancouver

Stock Exchanges

The preferred shares of Massey-Ferguson Limited are listed only on the Toronto, Montreal and Vancouver Stock Exchanges in Canada.

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